

Department of Veterans Affairs



Procurement
Reform Task Force
Report

May 2002

Department of Veterans Affairs Procurement Reform Task Force Report

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EXECUTIVE SUMMARY

OVERVIEW

The Department of Veterans Affairs' (VA) acquisition system spends over \$5 billion annually for pharmaceuticals, medical-surgical supplies, prosthetic devices, information technology, construction, and services. Recently, the Office of the Inspector General (OIG) and stakeholders expressed concerns about the effectiveness of VA's acquisition system. Issues raised include the extent to which VA obtains best available prices, consistently complies with Federal and VA acquisition regulations, appropriately uses purchase cards, implements adequate systems to track and document purchases, and ensures an adequate VA acquisition workforce.

The Secretary of Veterans Affairs established a Procurement Reform Task Force in June 2001, to review VA's acquisition system, develop specific recommendations for its optimization, and address concerns raised by various groups.

The Task Force reviewed documents prepared by OIG and other sources, including over 100 interviews with VA officials, vendors, private health care organizations and other individuals familiar with VA's acquisition programs. The Task Force also heard presentations from several key VA program leaders.

The Task Force focused its efforts on areas that offer substantial near-term savings and have high potential for sustainable improvements. In addition, the Task Force addressed critical VA-wide issues that affect the overall effectiveness of VA's acquisition system. Specifically, the Task Force examined acquisition of medical-surgical supplies, high-technology medical equipment, and prosthetic devices, as well as overarching issues including procurement authority and the acquisition workforce. While pharmaceuticals comprise a large percentage of VA's annual acquisition expenditures, the Task Force concluded that this area had already benefited from considerable management attention and improvements. Information technology and capital asset acquisitions were excluded since other groups were addressing these separately.

The Task Force established five major goals, which will lead to dramatic improvements in VA's acquisition system:

1. Leverage purchasing power of VA
2. Standardize commodities within VA
3. Obtain and improve comprehensive VA procurement information
4. Improve VA procurement organizational effectiveness
5. Ensure a sufficient and talented VA acquisition workforce

To accomplish these goals, the Task Force developed more than 60 specific recommendations and action steps required for implementation. Key recommendations are summarized below, and are detailed in subsequent sections of this report.

GOAL 1: LEVERAGE PURCHASING POWER OF VA

The VA health care system is one of the nation's largest markets for medical equipment, products, and services. VA purchased over \$500 million in medical-surgical supplies alone in FY 2000. In order to capitalize on its significant purchasing power, VA needs to better coordinate planning and procurement of products and services that are needed on a recurring basis. Currently, substantial market leverage is lost due to fragmented procurement practices that undermine VA's ability to consistently achieve the best prices and other terms.

While the Task Force recognizes the importance of retaining local initiative and flexibility, it is clear that actions must be taken to fundamentally change the Department's contracting priorities to maximize its position in the market and improve consistency, compliance, and quality across the system. To accomplish this objective, the Task Force recommends a revised contracting hierarchy, which mandates the use of Federal Supply Schedules (FSS) and national contracts for medical-surgical supplies and equipment. The new priorities encourage the establishment of national Blanket Purchase Agreements (BPA) when appropriate. Veterans Integrated Service Networks (VISN) will be required to submit requests for BPAs and consolidated high-technology medical equipment purchases to the National Acquisition Center (NAC) in order to improve systemwide coordination and maximize its negotiating position.

The Task Force also found that the Department's approach to attain socioeconomic goals needs to be better aligned with acquisition planning. The Task Force proposes recommendations to improve achievement of socioeconomic goals, while also ensuring programs and mission goals are not put at risk.

In addition, the Task Force is concerned about the lack of oversight and discipline in the use of purchase cards. Recommendations are offered to better control and monitor the use of purchase cards as a buying vehicle, while enhancing their use as a payment method.

Given the strategic relationship between VA and the Department of Defense's (DoD) health care systems, the Task Force also recommends intensified efforts to identify and pursue further opportunities for joint purchasing.

GOAL 2: STANDARDIZE COMMODITIES WITHIN VA

VA's pharmaceutical national contracts' (formulary) program is widely recognized as successful in using standardization to lower prices, improve quality, and streamline procurement. While efforts to adopt a similar approach to standardize purchasing of medical-surgical supplies have been underway for several years, progress has been slower than desired. In large part, limited progress can be attributed to the lack of clinicians' "buy-in" to the current standardization approach and limited accountability for

compliance. The Task Force recognizes the significant potential for cost saving and other procurement efficiencies and believes standardization of medical-surgical supplies is critical to achieve these results. The Task Force recommendations offer a robust, user-led approach to identify and select specific commodities for standardization.

GOAL 3: OBTAIN AND IMPROVE COMPREHENSIVE VA PROCUREMENT INFORMATION

Since successful management depends on effective measurement, the Task Force believes optimal results cannot be achieved from VA's acquisition system without the ability to identify, track and evaluate what is being purchased. To improve the completeness, reliability, accuracy, and consistency of VA procurement and materiel management data, Task Force recommendations address the need to improve use of existing systems, establish a National Item File (NIF), facilitate adoption of Universal Product Numbers (UPN), and improve planning for the migration to the core Financial Logistics System (coreFLS).

GOAL 4: IMPROVE VA PROCUREMENT ORGANIZATIONAL EFFECTIVENESS

To improve accountability, consistency and oversight of VA's acquisition system, the Task Force recommends several key organizational and policy changes. While field acquisition employees have a clear line of authority within their immediate organizations to their customers, other lines of procurement authority require clarification. This is especially important given the new contracting hierarchy recommended by the Task Force. Recommended changes include establishing direct authority from the VA Senior Procurement Executive, through the Procurement Executive, to Heads of Contracting Activity. The Task Force also recommends separating and elevating the VHA Logistics Office, and establishing a VHA Acquisition Board. The Acquisition Board will be responsible for standardization, acquisition planning, education and training, and oversight. The Acquisition Board will provide valuable customer feedback to the National Acquisition Center to ensure it is responsive to the needs of its clients. In addition, the Task Force recommends establishing a Business Oversight Board, as a subcommittee of the VA Strategic Management Council (SMC). The Business Oversight Board will assess, analyze and monitor critical business functions, including procurement activities, across the Department

Finally, to separate oversight responsibility of the Supply Fund Board from the operational functions of the Supply Fund, the Task Force recommends the Supply Fund Board be elevated and chaired by the Assistant Secretary for Management.

GOAL 5: ENSURE A SUFFICIENT AND TALENTED VA ACQUISITION WORKFORCE

Ultimately, the success of VA's acquisition system depends on its workforce. Without a sufficient number of talented and knowledgeable professionals, virtually none of the goals articulated by the Task Force can be achieved. The acquisition workforce issues currently facing VA are shared across Government, and the Task Force encourages VA to continue pursuing governmentwide solutions. In addition, the Task Force recommends VA take specific steps to "professionalize" the acquisition workforce, improve

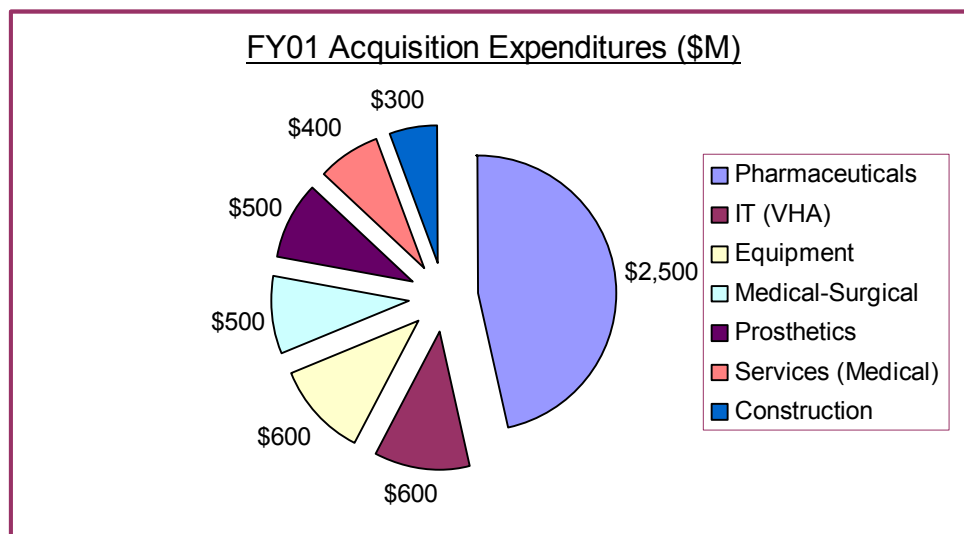
recruitment and retention, and enhance education and training. These actions include identifying members of its workforce and the competencies they must attain, assessing compensation, and establishing an acquisition intern program.

CONCLUSION

In summary, the VA Procurement Reform Task Force proposes a comprehensive set of recommendations that address the critical success factors necessary to optimize VA's acquisition system. Collectively, these recommendations offer a solid foundation for sustainable, systemwide transformation. Successful implementation of these recommendations will help VA fulfill its mission of service to veterans by improving quality, creating efficiencies, and supporting its dedicated workforce.

OVERVIEW

VA administers one of the largest Federal acquisition programs. VA annually purchases more than \$5 billion of pharmaceuticals, information technology (IT), equipment, medical-surgical and other supplies, prosthetics, services, and construction (Table A). VA manages its acquisition activities with nearly 6,000 employees.



Source: VA Procurement History File (FY01)

Table A

The Department's acquisition program is the responsibility of the Senior Procurement Executive (SPE). Currently, the Assistant Secretary for Management serves as the SPE, as well as head of the Office of Management (OM). The Procurement Executive (PE), who reports to the SPE, also has major responsibilities. The PE serves as the Deputy Assistant Secretary for Acquisition and Materiel Management. The majority of VA's local acquisitions are executed by contracting officers within the Veterans Health Administration (VHA). Currently, the VHA Office of Logistics, located in VHA's Office of the Chief Financial Officer, oversees VHA's acquisition program.

OM awards national contracts, including certain Federal Supply Schedules (FSS) under delegated authority from the General Services Administration (GSA). FSS contracts are also available for use by other Government agencies (OGA). These agencies purchase over \$1.5 billion of commodities using FSS and national contracts managed by VA. Major activities of the VA national acquisition program include the procurement of information technology, pharmaceutical products, extended-care (i.e., nursing home care) services, subsistence, and medical-surgical supplies. In addition, OM is responsible for policy development, oversight, contracting officer certification, and training for the acquisition workforce.

Each of the Department's three Administrations — VHA, Veterans Benefits Administration (VBA), and National Cemetery Administration (NCA) — execute

contracts, orders and agreements under individual delegations. The Administrations not only buy from national contracts awarded by OM, but also award contracts to meet local and regional needs. These acquisitions include a wide array of commodities, including medical services, health care products, vocational rehabilitation services, construction, and grave markers.

SCOPE AND METHODS

The Secretary of Veterans Affairs established the VA Procurement Reform Task Force in June 2001 to review VA's acquisition system, develop specific recommendations for its optimization and address concerns expressed by various groups. The Secretary appointed 13 members to the Task Force and instructed them to present their findings and recommendations to him through the Department's Strategic Management Council (Appendices A and B).

The Task Force focused its efforts on areas that offer substantial near-term savings and have high potential for sustainable improvements. In addition, the Task Force addressed critical VA-wide issues that affect the overall effectiveness of VA's acquisition system. Specifically, the Task Force examined acquisition of medical-surgical supplies, high-technology medical equipment, and prosthetic devices. The Task Force also studied overarching issues such as procurement authority and the acquisition workforce.

Although pharmaceuticals comprise a large percentage of VA's annual acquisition expenditures, the Task Force concluded that this area had already benefited from considerable management attention and improvements. Information technology and capital asset acquisitions were excluded since other groups are addressing these issues separately. Nonetheless, the framework and approach proposed by the Task Force are directly applicable to the procurement of capital assets as well as services.

The Task Force collected and reviewed a considerable amount of information. The Task Force reviewed documents prepared by the VA Office of Inspector General (OIG), former and current VA groups addressing acquisition issues, and other sources. The Task Force paid particular attention to the May 15, 2001, Office of Inspector General Report, "Evaluation of the Department of Veterans Affairs Purchasing Practices." The Task Force conducted more than 100 interviews with VA officials, vendors, private health care organizations, and other individuals familiar with VA's acquisition programs (Appendix C). The Task Force also heard presentations by several key VA program leaders from OIG, Prosthetics Service, and the Denver Distribution Center.

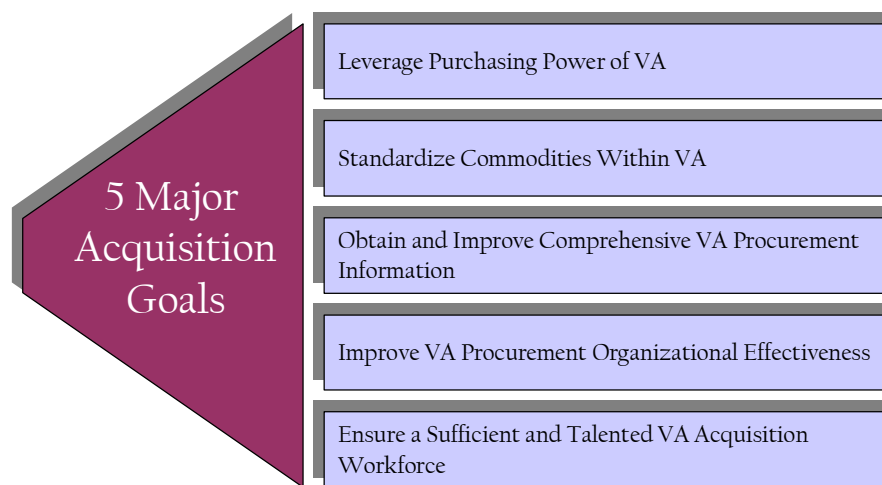
The Task Force convened numerous face-to-face meetings and videoconferences to identify issues, discuss findings, develop recommendations, and prepare its report. The Task Force had the privilege of presenting interim progress to the Deputy Secretary and the VA Strategic Management Council in November 2001, and to the Secretary in September 2001 and December 2001.

FRAMEWORK

VA's acquisition system is integral to the Department's mission of serving our Nation's veterans. In pursuing its charter, the Task Force was guided by the principles that in order to fulfill its mission, VA must have an acquisition system that:

- Promotes the timely delivery of high-quality patient care and other services;
- Optimizes the utilization of resources and deployment of assets;
- Adapts to changing business and health care environments; and
- Ensures compliance with acquisition statutes, regulations, and policies.

In order to create such a system, the Task Force established a framework that is predicated on five major goals:



To accomplish these goals, the Task Force developed more than 60 specific recommendations, along with action steps required for implementation. The five major goals and key recommendations are presented in the sections that follow. Accomplishing these goals will lead to dramatic and sustainable improvements in VA's acquisition system.

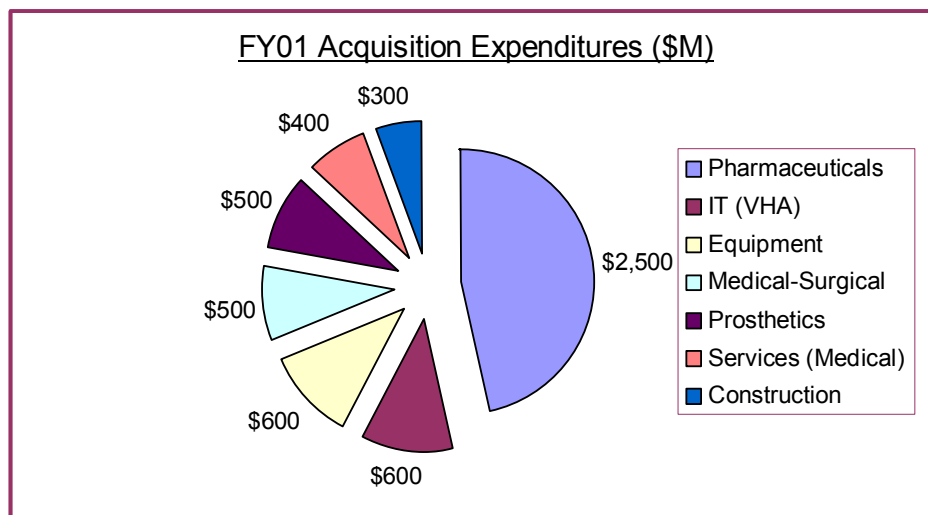


GOAL 1: LEVERAGE PURCHASING POWER OF VA

As the Nation's largest health care delivery enterprise, VA has the ability to realize enormous economies and achieve greater management efficiencies by fully leveraging its vast purchasing power. The Task Force believes it is essential to eliminate practices that fragment purchasing power and undermine the Department's ability to consistently achieve the best terms and prices. The Task Force addresses these problems with recommendations designed to eliminate contracting redundancies and bring consistency and focus to the Department's purchasing practices. These recommendations include the following: imposing a hierarchy which mandates the use of national contracts and FSS to procure health care supplies; pursuing tiered pricing and other favorable terms for acquisition instruments; consolidating high-technology medical equipment purchases; optimizing purchase card use; and, achieving lower medical materiel costs through partnering with DoD.

ASSESSMENT

The VA health care system is one of the Nation's largest markets for pharmaceuticals, medical equipment, products, and services. VA annually contracts for over \$2.5 billion in pharmaceuticals and over \$1.5 billion in medical-surgical supplies, prosthetic devices, equipment, and other health care related items. Presently, there is a wide range of purchasing practices employed by VA. This fragmentation diminishes VA's ability to optimize terms and obtain best prices for products that are needed on a recurring basis.



Source: VA Procurement History File (FY01)

Table 1.1

VA has authority to obtain health care items using a variety of contracting mechanisms. These options range from nationally negotiated, committed-volume contracts to an individual making a simple open-market transaction using a purchase card. There is significant redundancy and inconsistency throughout the system.

Federal Supply Schedule (FSS) and National Contracts

VA possesses unique opportunities to leverage buying power using FSS. These Schedules are multiple award contracts under which many vendors can have a contract to sell the same or similar products to the Federal Government, and meet all competition requirements. For, example, under the FSS multiple award program, all manufacturers of aspirin can have a contract to sell their products to the Government.

The General Services Administration (GSA) has delegated authority to VA to award and administer multiple award FSS contracts for Federal Supply Classes 65 (Medical and Surgical Supplies) and 66 (Laboratory), providing VA and other Government agencies access to a centralized acquisition program for health care supplies and services. VA FSS contracts are negotiated by the National Acquisition Center (NAC), the largest combined contracting activity within VA. Vendors submit offers to the NAC for evaluation by NAC contracting officers. The evaluation includes an assessment of the vendor's commercial sales practices. The NAC negotiates with vendors, seeking to leverage overall Government buying power by achieving pricing and terms equal to or better than what the vendor offers to its Most Favored Customer (MFC). During negotiations, manufacturers are required to disclose the prices and concessions they offer their MFC.

Unlike other Government contracts, the FSS Multiple Award Schedule includes a price reduction clause that helps to ensure that, throughout the life of the Government's contract, prices remain comparable to the prices granted to a negotiated commercial "tracking customer." FSS contracts include a maximum order provision (not to be confused with the recently eliminated maximum order limitation). Maximum order provisions provide the Government the opportunity to obtain better pricing and terms on volume purchases in excess of established thresholds.

VA-administered FSS schedules include other provisions and clauses to protect the interests of the Government including pre- and post-award audit rights, access to contractor records, and price adjustment clauses. In addition, FSS contracts contain Blanket Purchase Agreement (BPA) provisions that allow the Government the opportunity to negotiate better unit pricing based on commitments to sales volume or market share, and to provide more timely procurement of products and services needed on a recurring basis. FSS negotiations can also include tiered pricing arrangements that prescribe lower unit prices for larger purchase quantities, and other favorable terms, such as extended warranty periods, and reduced pricing on key parts or installation services. Because of the global nature of FSS and national contracts, these valuable terms can be more readily negotiated by the NAC and made available to all VA and OGA customers.

VA uses national contracts to leverage the Department's buying power on health care commodities identified as high usage where competition is practical. The requirements for national contracts are developed with customer input and are openly competed. National contracts are generally firm, fixed-price requirement-type contracts, with a base year and four 1-year option periods. Options are only exercised after market research reveals that the prices are fair and reasonable and the award is in the best interest of the Government. This type of contracting encourages vendors to offer better terms and prices based on firmer commitments. Since 1997, VA has achieved a cost avoidance of over \$800 million using national contracts.

VA FSS Multiple Award Schedule Contracts administered by the National Acquisition Center are also beneficial because:

- Negotiation, award, and administration of national contracts avoid the administrative costs and procurement delays that result when VA facilities negotiate individual contracts.
- Oversight and accountability of performance and pricing are improved and consistently uniform.
- Government health care providers have a broad range of contract items readily available to facilitate the delivery of high-quality health care.
- All vendors, including small businesses, have the opportunity to sell to the Government.
- Competition requirements are met.

Failure to use national contracts and FSS erodes VA's ability to leverage aggregate buying power of the Federal Government, diminishes visibility over procurement of medical-surgical items, and impedes ability to effectively manage VA acquisition program resources. The Task Force recognizes that waiver of mandatory use of FSS or national contracts may be appropriate in emergency or other situations where patient care may be negatively impacted. The circumstances warranting waivers are expected to be infrequent.

In summary, the Task Force believes that national contracts and FSS provide the best opportunity to achieve optimal pricing for VA and OGAs, including concessions given to commercial customers. FSS contracts protect the Government's interest by accommodating changes in market prices and making a variety of health care items available to VA clinicians. Negotiation of national BPAs allows NAC contracting officers to achieve additional discounts off the best FSS price by leveraging the overall buying power of VA and OGAs to meet volume commitments.

Product Databases

The benefits of FSS and national contracts cannot be realized unless procurement officials have reliable information available that identifies what items are offered. An electronic catalogue of FSS and national contract items should be available that enables purchasers to “shop for products” and compare prices of like or similar items.

Currently an electronic, partially searchable database showing many of the items available from FSS is available as a commercial service. It is available for a fee, and contains files in Portable Document Format (PDF). Products are not readily searchable unless one of the key words by which the file is indexed is used. As an example, a user can search for a specific manufacturer’s catheter using the stock number for that catheter. A search for catheters in general, however, will not display the array of catheters available on contract for the purposes of comparing them. While searchable database services are used by some procurement professionals, they are not easily used by purchase cardholders.

GSA operates a website, *GSA Advantage!*, that has a robust search function. However, only 8 percent (i.e., 78,000 items) of FSS Classes 65 and 66 product items are currently on the electronic website. *GSA Advantage!* is further limited because descriptions are not always complete, and photographs may be not be available. Other improvements are needed to make the website useful for purchase cardholders. Until *GSA Advantage!* is improved and made user-friendly for every VA buyer, full benefits of focused VA purchasing from FSS will not be fully realized.

VA Procurement Experience

The Task Force recognizes that VA’s success in improving acquisition of pharmaceuticals offers valuable lessons that can be applied to medical-surgical supplies and equipment. The number of pharmaceutical items offered to VA through the FSS greatly increased when Public Law 102-585 required manufacturers to make “covered drugs” available on FSS. VA has also been successful in negotiating distribution services contracts such as the Pharmaceutical Prime Vendor distribution program. Under this program, a single prime vendor has an agreement with VA to distribute virtually all pharmaceuticals. The distribution agreement features “negative” distribution fees. The vendor does not charge VA a fee for distribution services. Negative fees result from factors such as favorable volume-leveraged terms offered to the distributor by manufacturers with which the NAC has predetermined contract prices and cost-of-money benefits that accrue to the distributor.

VA has not been universally successful in achieving the best prices and terms for medical-surgical items or contracts for their distribution. Some VA facilities have purchased various items on the open market at prices higher than those available

to commercial customers. The Task Force examined several issues that contribute to open-market purchasing:

- Manufacturers are not required to offer their medical-surgical products on FSS.
- Some products used by VA medical facilities are only offered on the open market (e.g., certain types of vascular stents).
- In an attempt to achieve better prices and terms, VA facilities and VISNs have pursued separate contracts with vendors holding national or FSS contracts, causing vendors to conduct multiple negotiations for the same products or services, and possibly undermining the ability of the NAC to negotiate national contracts.
- Local contracts occasionally have lower initial costs, but may lack the same favorable terms and conditions as national contracts and, therefore, have higher total (i.e., life-cycle) costs.
- Some VA facilities and VISNs have entered into local distribution contracts that often charge more for items than the price available on FSS, BPA, or national contracts.
- It is difficult for VA medical facilities to determine the availability and prices of medical-surgical items on VA contracts.
- VA is currently limited in its ability to oversee the scope and volume of procurement of medical-surgical items, in part due to the proliferation of purchase cardholders and the resulting lack of procurement history.

VA is experiencing a new trend in the FSS program where distributors are seeking FSS contracts to supply medical-surgical products. Use of product distributors, which are typically small businesses, for non-distribution services enhances attainment of VA's socioeconomic goals. However, the Task Force believes this practice is not without cost to VA. Accountability is lost and the potential to reduce costs is decreased because of VA's inability to validate cost.

Socioeconomic Goals

VA's small business goal of total acquisition dollars is 40 percent, which is higher than the Governmentwide average of 23 percent. VA has consistently attained a higher percentage accomplishment than the Governmentwide average in every socioeconomic procurement category. VA has established goals for itself that are higher than the statutory goals and generally higher than all other Federal agencies. VA intends to continue its commitment to small business and other preferential business entities while still achieving the goals of the Task Force.

The Task Force believes that the Department's approach to attain socioeconomic goals needs to be better aligned with acquisition planning. Achievement of program and mission goals should not conflict with socioeconomic goals. Moreover, socioeconomic goals, currently perceived as primarily an acquisition responsibility, should be recognized by and also be the responsibility of program managers. Finally, data on purchases from small businesses made by purchase cards is not being fully captured (Recommendation 3.1).

RECOMMENDATIONS

The Task Force proposes an extensive set of recommendations that are designed to improve the ability of VA to achieve the best prices and other favorable terms. The Task Force believes that these recommendations will eliminate contracting redundancies and bring consistency and focus to the Department's acquisition practices. The ultimate result of these changes will be increased efficiency and significant cost avoidance.

Goal 1: Leverage Purchasing Power of VA

Leverage Purchasing Power Recommendations	
1.1	Establish a contract hierarchy which mandates VA use of national contracts and VA Federal Supply Schedule Groups 65 and 66 and for procurement of health care supplies
1.2	Pursue legislation and policy changes to enable VA to count first-tier subcontracts toward achievement of socioeconomic goals
1.3	Pursue tiered pricing and other favorable terms in all procurement instruments
1.4	Consolidate high-technology equipment purchases not covered by FSS schedules
1.5	Optimize and monitor the use of purchase cards
1.6	Partner with DoD to further leverage purchasing power of VA

Recommendation 1.1: Establish a contract hierarchy, which mandates VA use of national contracts and VA Federal Supply Schedule Groups 65 and 66 for procurement of health care supplies

The Task Force believes that FSS and national contracts provide the best opportunity to achieve optimal pricing and other terms for VA and other Government agencies. Therefore, the Task Force recommends VA establish the following priority:

Tier One	<ul style="list-style-type: none">• National committed use contracts• VA Federal Supply Schedule (FSS) Groups 65 and 66 for health care supplies in the following order of priority<ul style="list-style-type: none">❖ Nationally awarded Blanket Purchase Agreements issued against FSS contracts (by the NAC)❖ Multi-VISN, VISN, or locally awarded BPAs issued against FSS contracts❖ FSS purchases
Tier Two	<ul style="list-style-type: none">• VISN or regionally awarded contracts for items without national or FSS contracts• Locally awarded contracts for items without national or FSS contracts
Tier Three	<ul style="list-style-type: none">• Open-market purchases

This contracting hierarchy does not apply to the procurement of items from statutorily mandated sources.

VA will prepare an amendment or a deviation to the VA Acquisition Regulation (VAAR) that will change the contract hierarchy and mandate use of VA FSS

Groups 65 and 66 for VA procurement of health care supplies and equipment. The Task Force further recommends VA encourage other Government agencies to take similar measures particularly with respect to mandated use of VA FSS Groups 65 and 66. The Task Force proposes that all standardization requirements for local, VISN, or regional contracts or BPAs initially be referred to the NAC. The NAC will then determine if a negotiation at a corporate level offers greater potential than local negotiations. If so, the NAC will negotiate the contract within an established timeframe. Otherwise, the NAC will allow the requesting group to proceed with its negotiations. If the NAC does not decide within the specified timeframe, then the requesting group may proceed with its actions. The VHA Acquisition Board should establish performance metrics and monitor network and facility compliance and NAC timeliness. The Task Force recommends limiting arrangements with distributors for medical-surgical products and equipment to distribution services only. Exceptions will be granted if the distributor has a commercial customer base from which negotiations and award can proceed, or the distributor can provide the manufacturers' commercial-customer pricing information to determine a negotiation position which will result in a valid award.

The Task Force also recommends delegating the authority to execute waivers of the mandatory FSS requirement under compelling clinical circumstances to the VA Procurement Executive. The Procurement Executive may delegate waiver authority. Waivers should be closely monitored by the Procurement Executive and the VHA Acquisition Board (Recommendation 4.1).

The Task Force believes VA's acquisition system cannot achieve optimal results without the ability to identify medical supply items available on national and FSS contracts. The Office of Acquisition and Materiel Management (OA&MM) must develop a readily accessible, web-based, searchable listing of current FSS and national contracts. The listing must facilitate identification of specific items, contract vendors and their socioeconomic status, and related prices. The web-based searching tool will be coordinated with *GSA Advantage!* in a manner that should result in a virtual "VA Store" section within *GSA Advantage!*. The "VA Store" should include all commodities commonly purchased by VA and other Government agencies from VA contracts. The "VA Store" should also provide efficient and documented records of purchases from VA's FSS contracts. OA&MM should establish a "Help Desk" to respond to questions regarding availability, use, and benefits of national and FSS contracts.

VA needs to provide education and training tailored to improve VA Central Office and field staff knowledge of use and benefits derived from FSS contracts, BPAs, and *GSA Advantage!* OM and VHA will conduct industry outreach meetings and develop other communication mechanisms to inform manufacturers and suppliers of the new contracting priorities and will actively encourage industry participation in FSS and national contracts.

OM and VHA will collectively develop measures designed to monitor performance and audit compliance with revised contracting priorities and regulations, including socioeconomic goals. Results of these reviews will be reported to the VHA Acquisition Board. The success of this recommendation is partially but not entirely dependent upon other recommendations such as Recommendations 3.1 and 3.3.

Recommendation 1.2: Pursue legislative and policy changes to enable VA to count first-tier subcontracts toward achievement of socioeconomic goals

The Task Force recognizes the importance of socioeconomic programs. As VA attempts to leverage its buying power through increased use of standardization and other large procurements, opportunities for small businesses to be prime contractors may be diminished. For example, a small business may not have sufficient manufacturing, sales, distribution, or support capacity for a specific item needed systemwide. While the aggregation of requirements may limit opportunities for small businesses to participate as prime contractors, the Task Force expects their participation as first-tier subcontractors to increase. Subcontracting goals are currently required of large business contractors awarded large contracts. However, since subcontracting awards are not currently counted toward socioeconomic goal achievements, these subcontracting goals have limited utility. They are given little attention from either the contracting officer or the contractor. Consequently, for this realignment of emphasis to subcontracting to be successful, adequate incentives must be given to achieve these goals. The Task Force recommends VA champion this initiative with the Small Business Administration.

The Task Force believes that VA must find mechanisms to maintain and enhance small business participation in VA's acquisition process. The Task Force recommends VA pursue legislative and policy changes allowing first-tier subcontracts to contribute toward attainment of socioeconomic goals. It is also critical to ensure small business participation contributes to mission, program, and budget objectives. The VHA Acquisition Board should explore innovative approaches to increase small business participation, such as establishment of an incentive pool.

Recommendation 1.3: Pursue tiered pricing and other favorable terms in all procurement instruments

The Task Force believes tiered pricing and other favorable terms included in initial FSS awards can improve procurement efficiencies and reduce costs. Consequently, the Task Force recommends pursuing tiered pricing and other favorable terms for all acquisition instruments. The NAC will aggressively pursue BPAs, tiered pricing, and other favorable pricing terms in FSS contracts to the maximum extent appropriate. When national standardization efforts identify products for national BPAs, the NAC will aggressively pursue the most favorable terms for VA.

As noted above in Recommendation 1.1, multi-VISN, VISN, or local groups that identify potential benefits of establishing a BPA will forward a request to the NAC for a decision on negotiation strategy. If the NAC elects not to pursue a BPA, then the requesting group may still choose to do so. These groups should also pursue tiered pricing and other favorable terms in all of their contracts. In addition, all VISN and local BPAs should contain language that permits cancellation of the regional or local BPA if a national BPA for the same product becomes available, even if the national BPA is awarded to a different vendor.

Recommendation 1.4: Consolidate high-technology equipment purchases not covered by FSS schedules

In order to achieve the maximum pricing leverage for high-technology equipment, VA should consolidate and aggregate its needs at the VISN level whenever feasible. VISN Equipment Committees should be created and charged to aggregate and consolidate equipment procurement plans of desired purchases of high-technology equipment. Each VISN Committee's selections will be subject to approval by Network Directors.

VISN Directors will submit approved and funded plans to the NAC for procurement on a recurring basis. The plans shall provide the necessary information to negotiate improved prices that would include acceptable vendors, rationale, and price. Once received, the NAC will aggregate requests from multiple sources (e.g., VISNs, other Government agencies) and leverage those quantities to achieve price efficiencies and other concessions (e.g., additional features, equipment support, and/or training).

To provide further incentive for cost efficiencies, the OM will waive the usual fee charged if the NAC is unable to negotiate more favorable terms than the submitting office. This arrangement will align the financial incentives of the NAC with those of the VISNs.

Recommendation 1.5: Optimize and monitor the use of purchase cards

VA has greatly increased the use of purchase cards as a procurement method for micropurchases (i.e., transactions at or below \$2,500). Currently, 97-98 percent of all micropurchases are made by purchase card. There are approximately 34,000 purchase cards issued by VA. VA receives a rebate of 1.06 percent from the purchase card company for each VA purchase. In FY 2001, VA received a rebate of \$15 million from the use of purchase cards.

However, there are problems associated with the use of purchase cards. These concerns include misuse, proliferation of cards, lack of training, use of cards to bypass mandatory sources and standardization, lack of compliance with acquisition regulations and laws (e.g., requirement for competition), and the inability to monitor and track purchases for purposes of both procurement history and socioeconomic data.

The Task Force has concluded VA lacks the performance measures and other management tools necessary to assist users and managers with the recording, approval, and reconciliation of related transactions. VA can improve the management of its purchase card program by developing and applying national criteria for their use, including identification of appropriate purchase cardholders and approving officials.

To enhance the effectiveness of the purchase card program, VA will provide initial and ongoing training to all purchase cardholders. The Task Force recommends VA's Employee Education Service (EES), with assistance from OM, develop VA-specific training modules to be made available to all purchase cardholders. These training modules should provide extensive guidance on compliance with VA contract hierarchy, acquisition regulations and laws, including the requirement for competition and use of socioeconomic preferences. To the maximum extent possible, training should be accomplished via distance learning and other technologies, such as computer-based training or closed-circuit television programs.

In order to decrease transaction costs (e.g., invoice processing and late payment penalties) and maximize rebates VA receives from the purchase card company, the Task Force recommends that VA optimize the use of the purchase card as a payment mechanism. VA should assign "payment only" authority to individuals who are not warranted contracting officers to pay for acquisitions above \$2,500.

The Task Force believes that VHA can improve its procurement information by requiring that all services use "detailed" rather than "simplified" transactions for recording in Integrated Funds Distribution, Control Point Activity, Accounting and Procurement (IFCAP) when conducting recurring purchase card transactions. The Task Force recognizes that use of detailed transactions in IFCAP is not appropriate for all types of purchase card transactions; therefore, VA will revise and implement new criteria regarding the use of "detailed" versus "simplified" transaction documentation. These criteria will be based on such factors as the frequency of transactions, amount of purchase, and organizational unit.

Finally, the Task Force believes that optimal purchase card efficiencies cannot be achieved without monitoring purchase card transactions. VA should implement a nationally developed audit tool at the local level to monitor purchase card transactions to ensure security, appropriate purchases, proper costing, timeliness of certification, and oversight.

Recommendation 1.6: Partner with DoD to further leverage purchasing power of VA

VA should intensify ongoing initiatives designed to identify and create opportunities for joint VA-DoD purchasing to achieve lower medical materiel costs by combining the purchasing power of the two Departments and eliminating contracting redundancies. While all sharing initiatives must yield

cost or other benefits to VA, there are ample opportunities to utilize combined volume-leveraged contracts that will yield significant benefits for both Departments.

The Task Force recommends that VA identify new opportunities for sharing by pursuing contacts at the Department, Service, Military Regional, and individual military installation levels. In addition, VA should consider proposing an Acquisition Initiatives/Opportunities Subcommittee under the VA/DoD Health Care Resources Sharing Board.

The Task Force proposes VA request Office of Management and Budget (OMB) and DoD support for the proposed legislative amendment that would allow DoD to use more of the Supply Fund program services.

CONCLUSION

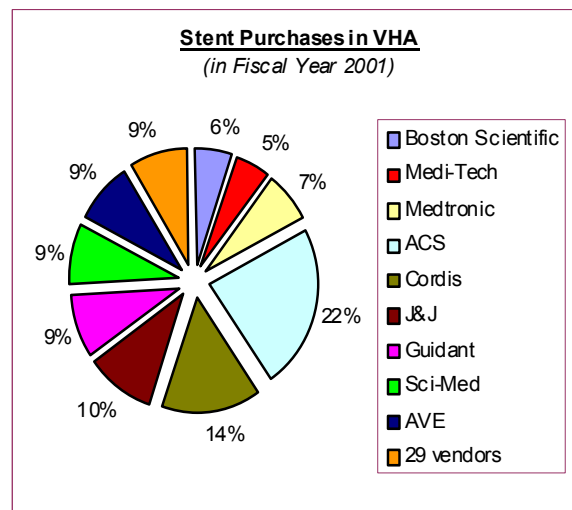
In summary, the Task Force recommends a comprehensive, integrated system approach to fully leverage the Department's vast purchasing power and achieve greater management efficiency. The Task Force believes that by using VA's unique acquisition authorities and imposing a priority framework for ordering health care items, VA will be able to better capitalize on its significant purchasing power. As a result, better communications, enhanced clinical involvement, real-time access to contract source information, and stronger purchasing oversight will be realized. When combined with enhanced standardization activities (Goal 2), VA will fully harness its enormous potential purchasing power. These actions will significantly benefit and support the Department in its mission to provide quality health care and other services to the Nation's veterans.



GOAL 2: STANDARDIZE COMMODITIES WITHIN VA

The Task Force recognizes the significant potential for cost savings and other procurement efficiencies and believes standardization of medical-surgical supplies is critical to achieve these results. VA's pharmaceutical national contracts' (formulary) program is widely recognized as successful in using standardization to lower prices, improve quality, and streamline procurement. The Task Force believes the same basic principles can be applied to the procurement of medical-surgical supplies. While efforts to adopt a similar approach to standardize purchasing of medical-surgical supplies have been underway for several years, progress has been slower than desired. The Task Force recommends several improvements, including a robust, user-led approach to identify and select specific commodities for standardization.

- 38 vendors have contracts with VA to provide stents
- Lack of product standardization adversely impacts VA because it reduces VA's ability to leverage its purchasing power
- Reduction in the number of vendors will provide economies of scale and will enable VA to receive discounts; therefore, significant cost savings will be achieved



Source: VA Procurement History Files (FY01)

Table 2.1

ASSESSMENT

VA buys large quantities of commodities, such as pharmaceuticals, medical-surgical supplies, and prosthetic devices. VHA has been standardizing some of these products for several years. The goal of these efforts is to standardize the types of products purchased, consistent with delivery of the highest quality of care and needs of practitioners. Despite efforts to standardize products, considerable fragmentation still occurs. As examples, procurement history records show VHA has purchased gloves from 191 different vendors and stents from 38 vendors.

Pharmaceutical standardization has been accomplished through the creation of a national formulary administered by VHA's Pharmacy Benefits Management (PBM) Program. The PBM Program has been extraordinarily successful in selecting the most efficacious medications and, by working closely with the NAC, obtaining the lowest prices in the industry.

VHA has started to standardize selected prosthetic devices while continuing to respect concerns expressed by veterans' advocacy groups. The Prosthetics Strategic Health Care Group is building a procurement database, the National Prosthetics Patient Database (NPPD) that collects information and classifies prosthetic devices into categories. The recently formed Prosthetics Clinical Management program is using the NPPD to identify "common use" items that may be appropriately contracted for on a national basis.

The VHA Logistics Office manages standardization of medical-surgical and other supplies. The VHA Logistics Office has formed six user groups charged with reviewing products for possible standardization. The six user groups are:

- Medical-surgical;
- Environmental management;
- Pathology and laboratory;
- Imaging and nuclear medicine;
- Dental; and
- Food and nutrition.

The six user groups evaluate quality, acquisition costs, and implementation costs of products. In addition, they also consider safety and small business concerns. The VHA Logistics Office and OA&MM are working with DoD to identify opportunities to jointly standardize and procure medical-surgical supplies and medical equipment.

Unfortunately, the pace of efforts to standardize medical-surgical supplies has lagged behind expectations. Participation and "buy in" by clinicians, especially at the local level, have been limited. The user groups have also been frustrated by inaccurate and incomplete procurement information (Goal 3). Although user groups consider quality as their first criterion, some clinicians perceive that current standardization efforts emphasize unit price, with insufficient attention to quality and long-term costs. Finally, compliance with standardization decisions has been variable and difficult to monitor.

RECOMMENDATIONS

The Task Force is convinced that there are significant opportunities to improve and expand the benefits of VHA's standardization efforts. The Task Force believes that an approach similar to the one used for pharmaceuticals can be applied to the procurement of medical-surgical supplies and prosthetic devices with even greater savings.

Goal 2: Standardize Commodities Within VA

Standardization Recommendation	
2.1	Expand, enhance, and enforce commodity standardization

Recommendation 2.1: Expand, enhance, and enforce commodity standardization

The Task Force believes the VHA Acquisition Board should select product categories for national standardization (Recommendation 4.1). As discussed below, user-based groups should conduct evaluations of specific products, with the NAC managing associated acquisition activities. The Acquisition Board should consider several product attributes in its deliberations, including the volume of product purchased (i.e., quantity and/or total costs), number of vendors selling the product, socioeconomic status of vendors, variation between manufacturers, availability of substitute products, and the stability of the product in terms of technological improvements.

As a starting point, the Task Force recommends the Acquisition Board first consider the “Top 20” non-standardized medical-surgical items purchased by VHA, based on total costs. The estimated “Top 20” list for VHA in FY 2001 is listed in Table 2.2 below:

VHA “TOP 20” LIST (FY01)

- VHA should focus on the top 20 non - standardized medical -surgical items to obtain maximum benefit

Item	Estimated Annual Expenditures (\$000)
Stents (multiple types)	\$20,253
Intravenous (IV) Injections Sets	\$18,637
Gloves (surgical and exam)	\$15,955
Surgical Procedure Packs	\$9,190
Sutures	\$8,286
Electrodes (ECG)	\$7,471
Laboratory Supplies	\$7,320
Sheath Introducers	\$6,129
Wheelchairs	\$5,863
Contrast Media (radiology)	\$5,374
Surgical Staplers	\$4,879
Cardiac Pacemakers	\$4,808
Guidewires	\$4,214
Collection Tubes (phlebotomy)	\$3,555
Balloon Catheters	\$2,299
Cardiac Catheters	\$2,259
Forceps	\$2,250
Defibrillators	\$2,238
Scooters	\$1,998
Continuous Positive Airway Pressure Systems	\$1,986
Total	\$134,964

Source: VA Procurement History Files (FY01)

Table 2.2

The Task Force recommends establishing additional user-based groups focused on product standardization. The Task Force believes a larger number of more narrowly focused groups will successfully standardize more products in a shorter period of time than the current six user groups. It is essential to continue to have clinicians and other users of the products lead and drive the process. Clinical participation will ensure optimal decision making and improve compliance.

The VHA Acquisition Board should establish a consistent approach to standardizing commodities that will be followed by all user groups. Processes should be based on commercial best practices, and the user groups will consider quality, total life-cycle costs, and socioeconomic business goals. The goal of standardization is to reduce the numbers of vendors and products purchased in order to leverage purchasing power and develop economies of scale. Standardization does not mean that only a single vendor will be selected. In many cases, having at least two possible sources for a particular product is desirable and can lead to step-wise reductions in price through ongoing competitive pressures. Additionally, having more than one vendor will also allow small businesses to continue to participate in these procurements. Currently, small businesses have been awarded 35 percent of standardized contracts.

Once particular products have been selected through the standardization process, they will be considered mandatory for use by all VHA facilities. VHA will grant waivers to standardized products, but only when compelling clinical circumstances can be demonstrated. The process to request waivers and the criteria used to evaluate requests should be developed and clearly communicated to VA employees. The authority to grant waivers should rest with the VHA Chief Logistics Officer (CLO) (Recommendation 4.2). This authority may be delegated to others.

VA needs to monitor and enforce compliance with its standardization decisions in order to achieve maximum results from its standardization efforts. This requires complete and accurate procurement data and active involvement of senior leadership (Recommendation 3.1). The VHA CLO should select, distribute, and review information necessary to evaluate compliance.

CONCLUSION

Standardization, in concert with a new contracting hierarchy, will be a powerful approach for VA to ensure it achieves best value in its purchases. VA has clearly demonstrated through its Pharmacy Benefits Management (PBM) Program that a user-driven, evidence-based approach can both improve quality and reduce costs. The Task Force believes similar results can be achieved with the procurement of prosthetic devices and medical-surgical supplies. The Task Force recommends several actions that will expand, enhance, and enforce product standardization.



GOAL 3: OBTAIN AND IMPROVE COMPREHENSIVE VA PROCUREMENT INFORMATION

Since successful management depends on effective measurement, the Task Force believes VA's acquisition system cannot achieve optimal results without the ability to identify, track, and evaluate what is being purchased. In addition, thorough documentation is essential to ensure compliance with procurement policies. Currently, VA systems make it difficult to consistently record complete, reliable, and accurate acquisition and materiel management data. The Task Force addressed these issues and makes recommendations to improve the use of existing systems, establish a National Item File, facilitate adoption of Universal Product Numbers, and improve planning for the migration to coreFLS.

ASSESSMENT

VA collects extensive procurement information in several separate databases. One of VHA's principal procurement databases is the Integrated Funds Distribution, Control Point Activity, Accounting and Procurement (IFCAP) system. Each VHA facility develops its own item file in IFCAP. Although naming conventions were available to users when each facility established its item file, a search of the national IFCAP database reveals wide variations in naming. As an example, Table 3.1 displays a partial listing of the variety of names used to describe surgical gloves. These differences preclude a complete and accurate "roll-up" of national VA procurement information.

- Surgical gloves are listed by several different names
- This variability limits VA's ability to aggregate data

Surgical Glove Descriptions
Gloves
Sterile procedure gloves
Gloves surgical
Surgical gloves
Gloves -surgeons
Glove-surgeon-sterile
Surgeons gloves
Gloves, orthopedic surgical
Surgical gloves for orthopedics
Orthopedic, surgical gloves
Orthopedic, surgical sterile
Ortho gloves

Source: VA Procurement History Files (FY01)

Table 3.1

The variations in item files also may be related to the use of distributors by some VHA facilities. In some cases, facilities use stock numbers from distributors to identify purchased products, instead of stock numbers from manufacturers. As a result, the identical product from a single manufacturer may be listed under several different item numbers.

The widespread use of purchase cards also contributes to the lack of procurement data. While the purchase card records provided by the issuing financial institution contain some transaction information, they do not provide sufficient identification and details of the type of items being purchased. Moreover, purchase card users have the option of recording transactions in IFCAP using a “simplified” method, rather than the more complete (and time-consuming) “detailed” method. The “simplified” method does not always include enough specificity (e.g., item file number) to thoroughly evaluate purchases or to capture important socioeconomic data. Inappropriate use of the “simplified” method fragments and limits complete procurement information (Recommendation 1.5).

VA also collects redundant procurement information by using duplicative procurement software (e.g., IFCAP and the Prosthetics Procurement Package) and duplicative inventory software packages (e.g., IFCAP and the Prosthetics Inventory Package). This practice reduces efficiencies by requiring staff to record entries into multiple systems. In addition, some of the identifiers in these databases (e.g., Healthcare Common Procedure Codes [HCPC] used in the National Prosthetic Patient Database [NPPD]) lack specificity and lead to different products having identical codes.

RECOMMENDATIONS

The Task Force proposes short-term and long-term actions that will improve the accuracy, reliability, and utility of VA’s procurement information. The Task Force believes these recommendations will increase and enhance the collection and analysis of procurement information by employing consistent practices, reducing fragmentation, and capturing relevant data.

Goal 3: Obtain and Improve Comprehensive VA Procurement Information

	Obtain and Improve Comprehensive VA Procurement Information
3.1	Improve the accuracy and completeness of procurement and materiel management data
3.2	Facilitate industrywide development and adoption of Universal Product Numbers (UPN)
3.3	Establish a National Item File (NIF) with a standard naming convention
3.4	Develop a migration strategy for the transition to coreFLS

Recommendation 3.1: Improve the accuracy and completeness of procurement and materiel management data

VHA can improve its procurement information by enforcing the requirement for all services with recurring inventories to use the Generic Inventory Package (GIP). Implementation of the GIP management system will capture procurement transaction data in IFCAP and provide VA with the information necessary to optimize its procurement system.

VHA Directive 1761.2, dated October 2000, requires an appropriate level of inventory management and use of GIP. Some VHA facilities cite a lack of expertise regarding GIP as a barrier to full implementation. Consequently, VHA needs to provide additional education, training, and assistance to facilities for implementation of GIP.

In conjunction with GIP, VHA facilities and VISNs should implement cost-effective inventory management and distribution systems. Several VISNs utilize medical-surgical prime vendors (MSPV) that provide distribution, inventory management, and procurement transaction services. For a variety of local conditions (e.g., geography, availability of MSPVs), the fees charged by MSPVs may or may not exceed the benefits of the services provided. The Task Force recommends each VISN critically assess the cost-effectiveness of MSPV programs based on nationally developed criteria and implement as appropriate.

The Task Force recommends that IFCAP and GIP systems be the standards and that the VHA Acquisition Board carefully review potentially redundant procurement systems in VHA (Recommendation 4.1). The Board should actively solicit perspectives from VA Central Office (VACO) program officials as well as field staff who use the databases. The Board should decide if systems and databases, such as the NPPD, should be modified, discontinued, or remain unchanged.

Recommendation 3.2: Facilitate industrywide development and adoption of Universal Product Numbers (UPN)

Some health care products have unique, industrywide identifiers, such as the National Drug Code (NDC) number, for pharmaceuticals. The availability and use of NDCs facilitate product cost-comparisons, reductions in medical errors, implementation of electronic medical records with computerized order-entry, and cost savings. Unfortunately, such universal identifiers do not commonly exist for medical-surgical supplies. Some manufacturers and distributors may be resisting creating these identifiers since they would permit easy cost-comparisons of similar products.

Many Government, business, health care, and consumer organizations have advocated adoption of unique, industrywide identifiers for all health care products as a way to improve quality, increase safety, and enhance cost-efficiencies. The proposed identifiers, known as Universal Product Numbers

(UPN), have the potential to extend the benefits of NDCs to the procurement and utilization of all medical-surgical supplies.

The Task Force recommends that VA take a leadership position in the advocacy of UPNs. Specifically, the Task Force suggests that VA should expedite efforts to prepare a UPN cost-benefit analysis and a formal regulatory package. Subsequently, VA should submit this data to the Office of Management and Budget (OMB). Members of the Task Force believe other Federal agencies will support VA's lead in this endeavor. VA should also continue to actively participate in the Health Care Electronic Data Interchange Coalition to promote the use of UPNs in the health care industry.

Recommendation 3.3: Establish a National Item File (NIF) with a standard naming convention

In order to create an accurate, comprehensive, and useful procurement database, VA should consistently assign a unique identifier to each product purchased. This database, which would include purchases of pharmaceuticals, prosthetic devices, and medical-surgical supplies, would serve as a VA National Item File (NIF). The VHA Acquisition Board should determine if Healthcare Common Procedure Codes (HCPC) are the appropriate identifier for prosthetic devices. (Although HCPCs are the industry standard and are used by Medicare, HCPCs lack specificity as noted above.) The NIF would provide the necessary information to improve data quality, facilitate data exchange, evaluate comparative data, increase efficiencies, and monitor compliance.

VA can immediately begin the formation of a NIF that will be used in IFCAP at all VHA facilities. The NIF developed for IFCAP will also serve as the NIF for coreFLS (Recommendation 3.4). The Task Force recommends the item files from the VHA and VBA facilities serving as coreFLS enterprise builds (i.e., test sites) should be used to begin development of the NIF. The enterprise builds are located in Little Rock, AR; Albany, NY; Fayetteville, NC; Austin, TX; Hines, IL; and Huntington, WV. VA should merge the item files from these enterprise builds, eliminate duplication, and standardize the numbering system. Once available, VA should download the NIF and develop a programming patch to IFCAP for mandatory use at each facility.

Recommendation 3.4: Develop a migration strategy for the transition to coreFLS

Successful implementation of coreFLS will require uniform, systemwide product numbering. As noted above, such a numbering system does not currently exist. It is essential that a product identifier and cataloging scheme be developed to ensure that coreFLS can accumulate all supply consumption data. VHA and OM should work cooperatively to establish a uniform conversion process at the coreFLS enterprise builds. The lessons learned from the enterprise builds will facilitate an expeditious conversion of all facility GIP, prosthetic (i.e., NPPD), and pharmacy data into coreFLS.

If UPNs are created and adopted industrywide, they could serve as the product numbering system for medical-surgical items. UPNs could supplement the coreFLS item number and would be useful to compare product pricing and consumption industrywide. Additionally, if products are labeled with bar-coded UPN numbers on the package, VA could significantly increase materiel handling efficiencies.

CONCLUSION

With a consistent, standardized, and accurate national procurement database, VA will be able to fully leverage its purchasing power and ensure compliance with regulations and corporate goals. VA will also be able to effectively manage its inventory and avoid emergency or open-market purchases.



GOAL 4: IMPROVE VA PROCUREMENT ORGANIZATIONAL EFFECTIVENESS

The Task Force believes it is critical to have in place appropriate organizational structures, acquisition policies, and relevant authorities to ensure accountability, consistency, and effective oversight across the system. The Task Force recommends several key organizational and policy changes that will achieve these objectives, while enabling integration and elevation of acquisition strategy and planning to a national level.

ASSESSMENT

VA currently has a limited ability to enable key employee groups to coordinate, integrate, and ensure consistency among acquisitions. Further, VA lacks global acquisition planning and strategy development. Within VHA, various entities plan and develop strategies independently to meet their individual needs. As a result, there is significant redundancy and inconsistency across the system, with little leverage to meet shared requirements. In addition, VHA does not fully benefit from lessons learned, and solutions are often not scaled to meet broader needs.

VHA must develop an approach to procurement that is sustainable and consistent, and achieves desired results. The Task Force believes a cross-functional, multi-disciplinary approach is necessary, given that acquisition of medical-surgical supplies and equipment has a critical impact on the ability of VA to deliver high-quality health care. The participation of all employee groups is important, including contracting, logistics, finance, legal, and small business. Clinical involvement and feedback are particularly critical. Under the existing organizational structures, there is no central coordinating mechanism. Currently, clinicians are not sufficiently involved in the process and are often unaware of the benefits of dedicating their time and effort to the procurement process.

The Task Force concluded that VHA needs a single point of authority and responsibility for guiding standardization, procurement planning, and other related functions. The present Chief Logistics Officer (CLO) function is obscured within VHA by the relative lack of visibility of the Logistics Office among senior leaders. Appropriate coordination and customer feedback are also needed between VHA and the Office of Management (OM), including the National Acquisition Center (NAC).

The Task Force also found a need to clarify and codify procurement authority. While field acquisition staffs have a clear line of authority within their immediate organizations to their customers, other lines of procurement authority are blurred. When VHA organizational structures were decentralized, many acquisition responsibilities were exported to the Heads of Contracting Activity (HCA) and Chief Logistics Officers (CLO) in the field. There are approximately 220 HCAs across VA, most of whom are within VHA. Some CLOs in the field are not also HCAs, despite the significant synergy in those responsibilities. This creates further fragmentation and redundancy within the acquisition system, and needs to be resolved.

HCAAs have dual roles, with operational responsibilities to local VISN and facility management, and technical responsibilities for compliance with applicable acquisition rules and regulations. Oversight of these technical responsibilities requires clarification, since VA's current delegation of procurement authority does not actually empower the Procurement Executive to oversee execution of these duties. It is widely assumed that procurement authority is formally delegated to the field from the VA Procurement Executive. In fact, contracting authority currently flows from the Secretary to the Senior Procurement Executive, from the Secretary to the Procurement Executive, and from the Secretary to the HCAs. As a result, HCAs are accountable only to the Secretary and to their supervisors at the VISN level. The Task Force recognizes the importance of having clear, direct accountability from the field through the Procurement Executive to the Senior Procurement Executive to ensure that acquisition activities are being carried out in a manner consistent with laws and regulations.

Current Acquisition Authority

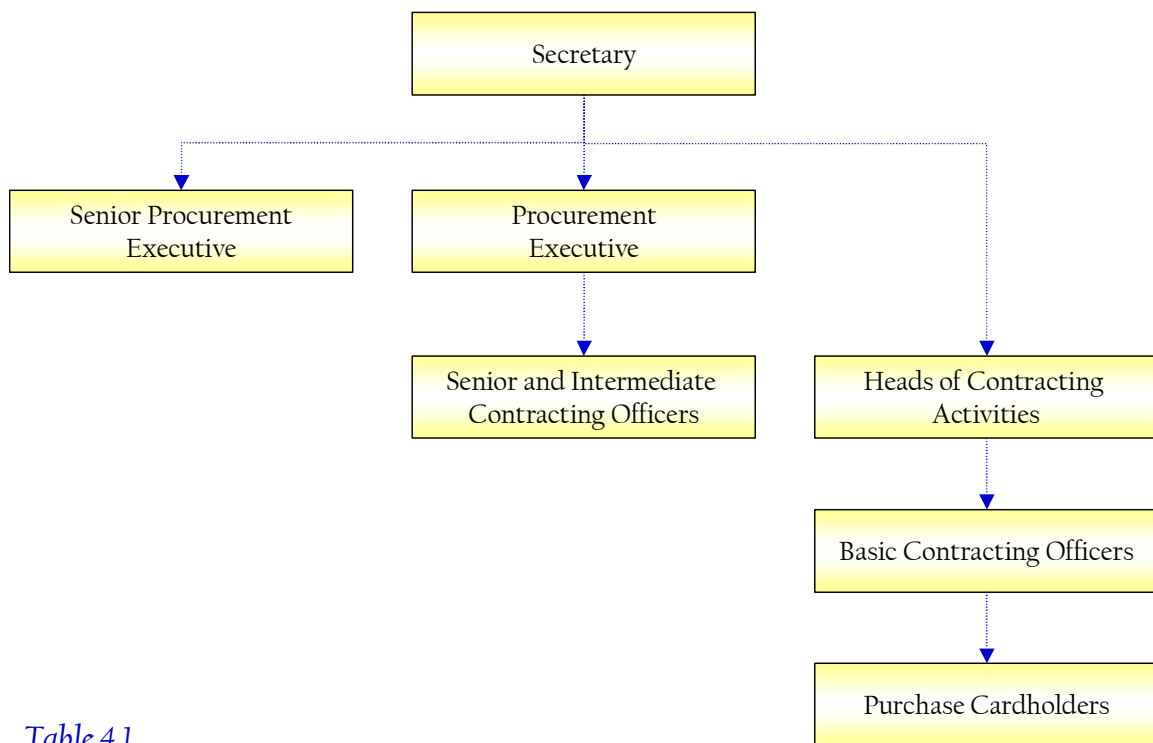


Table 4.1

The VA Supply Fund plays an important role in the Department. Many acquisition functions within VA are funded through the Supply Fund, including acquisition training and the Office of Small and Disadvantaged Business Utilization (OSDBU). Currently, the oversight and operation of the Supply Fund are linked. The oversight provided by the Supply Fund Board should be separated from the operational function of OA&MM to avoid any real or perceived conflicts of interest.

The Task Force also questioned and reviewed the cost-effectiveness of the Denver Distribution Center (DDC). The DDC provides many valuable audiological services, including procurement and distribution of hearing aid batteries. DDC also provides hearing-aid repair services directly for veterans and VA medical facilities. With 61 authorized full time employee equivalents (FTEE) and an operating budget of \$5.7 million, the DDC represents a significant investment. DDC has been widely recognized for the quality of its work; however, some have suggested that there may be more cost-effective alternatives that could maintain work quality and volume at a much lower cost.

RECOMMENDATIONS

The Task Force proposes a set of organizational changes and revisions to VA's procurement authority that will lead to meaningful, sustainable improvements in acquisition planning, execution, oversight, and coordination across the system. The Task Force believes these changes are necessary to ensure accountability and achievement of consistent, measurable results. The recommendations below are intended to be applicable to all VA-funded acquisitions.

Goal 4: Improve VA Procurement Organizational Effectiveness

Organizational Effectiveness Recommendations	
4.1	Establish a VHA Acquisition Board
4.2	Establish a separate Office of Chief Logistics Officer within VHA
4.3	Codify the authority of VA's Senior Procurement Executive and Procurement Executive over the Heads of Contracting Activity (HCA)
4.4	Enhance the role of the VISN Chief Logistics Officers
4.5	Clarify the role of contracting at each level of the organization
4.6	Elevate accountability of the Supply Fund Board
4.7	Establish a VA Business Oversight Board
4.8	Independently assess the cost-effectiveness of the Denver Distribution Center to determine whether the program is necessary
4.9	Ensure VA acquisition programs achieve desired results

Recommendation 4.1: Establish a VHA Acquisition Board

VHA will establish an Acquisition Board to oversee and coordinate standardization activities, acquisition planning, education, and training for acquisition staff, CLO council activities, and socioeconomic goal attainment. As depicted in Table 4.2, the Task Force proposes the Acquisition Board be on par with VHA's Policy and Capital Asset Boards. Subcommittees will be established as needed.

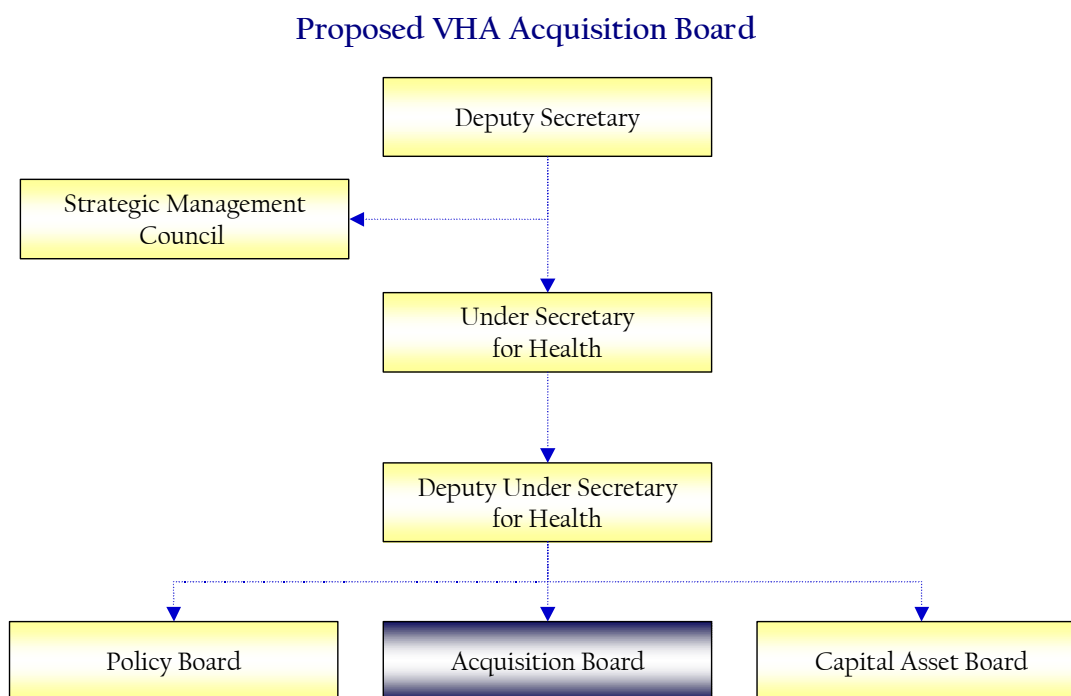


Table 4.2

The Task Force recommends that the Deputy Under Secretary for Health (DUSH) chair the Acquisition Board. Further, the DUSH, reporting through the Under Secretary of Health, will serve as the liaison to the Department's Strategic Management Council (SMC).

The Acquisition Board will establish a NAC Advisory Council to provide clinical and customer feedback and guidance to the NAC, as shown in Table 4.3. The NAC Advisory Council will monitor the effectiveness of the NAC. In conjunction with the Supply Fund Board, which will monitor the efficiency of the NAC, the NAC Advisory Council will ensure the NAC is a customer-responsive organization.



Table 4.3

The Task Force recommends members of the Acquisition Board should include senior leaders from VACO, Networks, and facilities:

Proposed Acquisition Board Senior Leadership Membership	
Deputy Under Secretary for Health (Chair)	VISN Chief Medical Officer
VHA Logistics Officer (Executive Director)	VISN Chief Logistics Officer
VHA Chief Consultant, Pharmacy Benefits Management	Facility Medical Center Director
VHA Chief Consultant, Prosthetics	Facility Chief of Staff
VHA Chief Consultant, Patient Care Services	Facility Chief, OA&MM
VHA Chief Financial Officer	Executive Director, National Acquisition Center
VISN Director	VA Procurement Executive

Recommendation 4.2: Establish a separate Office of Chief Logistics Officer within VHA

The Task Force recommends separating and elevating the current VHA Logistics Office from the Office of the VHA Chief Financial Officer, and establishing a VHA Office of Chief Logistics Officer (CLO). The VHA CLO should report directly to the Deputy Under Secretary for Health (Table 4.5). The Office of Chief Logistics Officer will support the activities of the VHA Acquisition Board and will provide program direction and coordination for all VHA logistics and acquisition functions. The Task Force suggests that preference should be given to qualified Title 38 candidates for the VHA CLO position. The Task Force believes a CLO who is a clinician will facilitate and encourage clinical participation in logistics and acquisition initiatives, especially standardization activities.

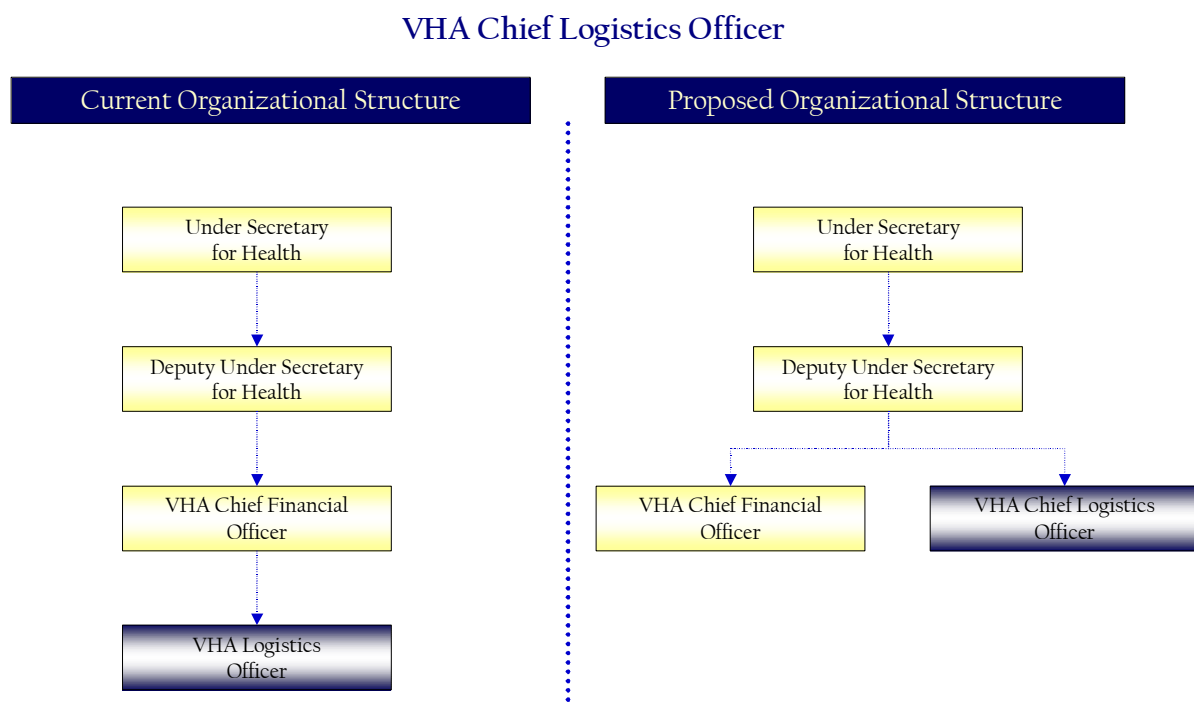


Table 4.5

Recommendation 4.3: Codify the authority of VA's Senior Procurement Executive and Procurement Executive over the Heads of Contracting Activity (HCA)

The Task Force recommends delegating the authority to appoint HCAs from the Secretary through the Senior Procurement Executive (SPE) to the Procurement Executive (PE), as shown below in Table 4.6. This proposed delegation of authority is consistent with current delegation of authority to the PE for senior and intermediate contracting officers. This change in authority also will clarify and formalize accountability of VA's contracting staff, including HCAs, to OM for compliance with Federal and VA acquisition rules and regulations. The Task Force further suggests that OM, working in conjunction with customer

organizations within VHA and VBA, evaluate and determine the appropriate number of HCAs needed to accomplish the Department's procurement objectives. Although the number of HCAs needed may vary by organization (e.g., VISNs), the Task Force believes there will be an overall reduction in the number of designated HCAs.

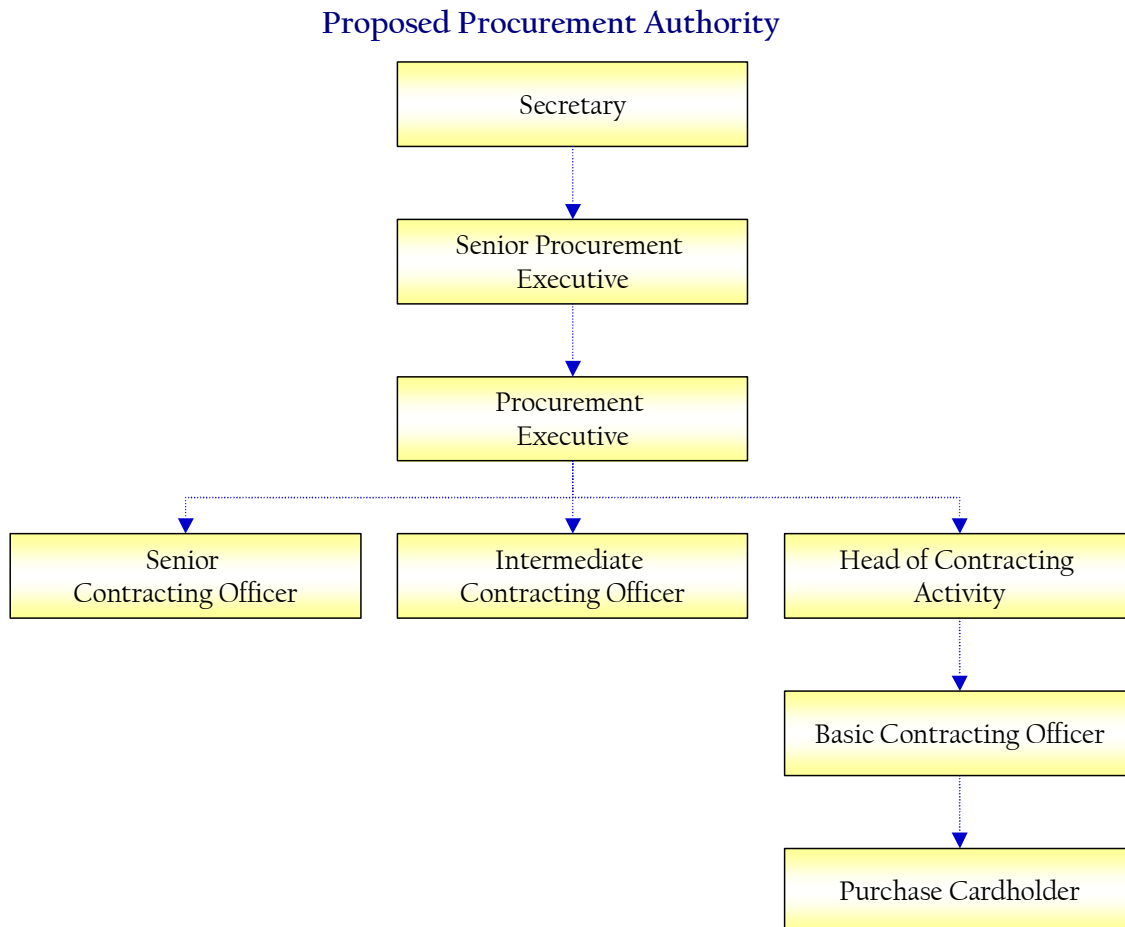


Table 4.6

Recommendation 4.4: Enhance the role of the VISN Chief Logistics Officers

VISN Chief Logistics Officers (CLO) should be part of VISN management teams and have clearly defined responsibilities. VA should require that all VISN CLOs also be Heads of Contracting Activity (HCA) to facilitate their effectiveness. This will better integrate and align acquisition, inventory management, and logistics functions within VHA. In addition, the responsibilities of the VISN CLOs need to be clarified to ensure consistency and accountability across the system, in terms of both customer responsiveness and compliance with acquisition rules and regulations.

Recommendation 4.5: Clarify the role of contracting at each level of the organization

The roles, responsibilities and relationships of the various acquisition organizations within VA should be defined to ensure decision making is consistent with relevant policy objectives, as well as compliant with applicable rules and regulations. The following charts summarize the delineation of acquisition responsibilities recommended by the Task Force.

Proposed Acquisition Responsibilities

VA Office of Management
Develop, award, and administer FSS and national contracts
Develop, award, and administer VA Central Office contracts
Delegate authority to contracting officers
Manage acquisition training program
Administer VA Supply Fund
Develop and promulgate national acquisition and logistics policies and performance metrix
Audit and monitor compliance with use of mandatory national contracts, FSS contracts, and BPAs.
Represent VA in discussions with other agencies regarding Federal acquisition policies and practices
Advise the Secretary on proposed legislation affecting VA procurement and logistics programs
Coordinate VACO, VHA, VBA, NCA, Logistics Office, EES, and HR development and implementation of innovative recruitment, training and education strategies
Work with the Office of Small and Disadvantaged Business Utilization (OSDBU) to establish and achieve socioeconomic goals

Proposed Acquisition Responsibilities (cont'd)

VHA Acquisition Board

Set VHA acquisition priorities consistent with Department goals and objectives

Develop VHA Advance Procurement Plan

Review, approve, and coordinate implementation of VHA acquisition activities

Identify items for standardization and oversee process

Develop and implement effective acquisition strategies for pharmaceuticals, prosthetic devices (including surgically implanted devices), medical-surgical supplies, non-medical supplies (e.g., office supplies), services (both clinical and non-clinical), and information technology

Monitor compliance with standardization decisions, performance measures, purchase cards, educational requirements, and training

Develop data systems and automated tools that facilitate compliance monitoring

Recommend allocation of acquisition resources (e.g., funding for prosthetic devices) to Under Secretary for Health

Assess effectiveness and customer responsiveness of the National Acquisition Center (NAC) and consolidated field contracting activities (e.g., Cleveland Business Center, Austin Automation Center)

Offer clinical expertise and consultative services to the NAC

Provide input to the Supply Fund Board regarding rate changes

Work with OSDDBU to establish and achieve socioeconomic goals

Proposed Acquisition Responsibilities (cont'd)

Office of Chief Logistics Officer

Audit compliance with national contracts, FSS contracts, and national Blanket Purchasing Agreements with assistance from OA&MM

Coordinate efforts to standardize pharmaceuticals, prosthetic devices, and medical-surgical supplies

Encourage participation in standardization initiatives, including pharmaceuticals, prosthetic devices, and medical-surgical supplies

Establish criteria for selection of purchase cardholders

Participate in development of VHA statements of work, especially for services

Define appropriate metrics to assess effectiveness of the VHA acquisition system

Minimize need for and use of multiple and duplicative information systems

Provide staff support to the VHA Acquisition Board

Provide leadership and mentorship to VISN Chief Logistics Officers

Participate with VA OA&MM in development and implementation of innovative recruitment, training, and education strategies

Work with OSDDBU to establish and achieve socioeconomic goals

VISN and Local Contracting Offices

Utilize existing national and FSS contracts

Develop and award VISN and local BPAs against FSS contracts, subject to prior review by NAC

Develop and award contracts for goods and services when national and FSS contracts do not exist

Assist in development of statements of work for goods and services not available from national and FSS contracts

Administer locally awarded contracts

Work with OSDDBU to establish and achieve socioeconomic goals

Recommendation 4.6: Elevate accountability of the Supply Fund Board

To separate the oversight responsibility provided by the Supply Fund Board from the operational functions provided by OA&MM, the Task Force recommends elevating accountability to the Assistant Secretary for Management, as shown below in Table 4.7. With the Assistant Secretary for Management (currently also the SPE) as the Chair of the Supply Fund Board, any real or perceived conflicts of interest will be eliminated. The Task Force also suggests Board membership be revised to include several members of the VHA Acquisition Board.

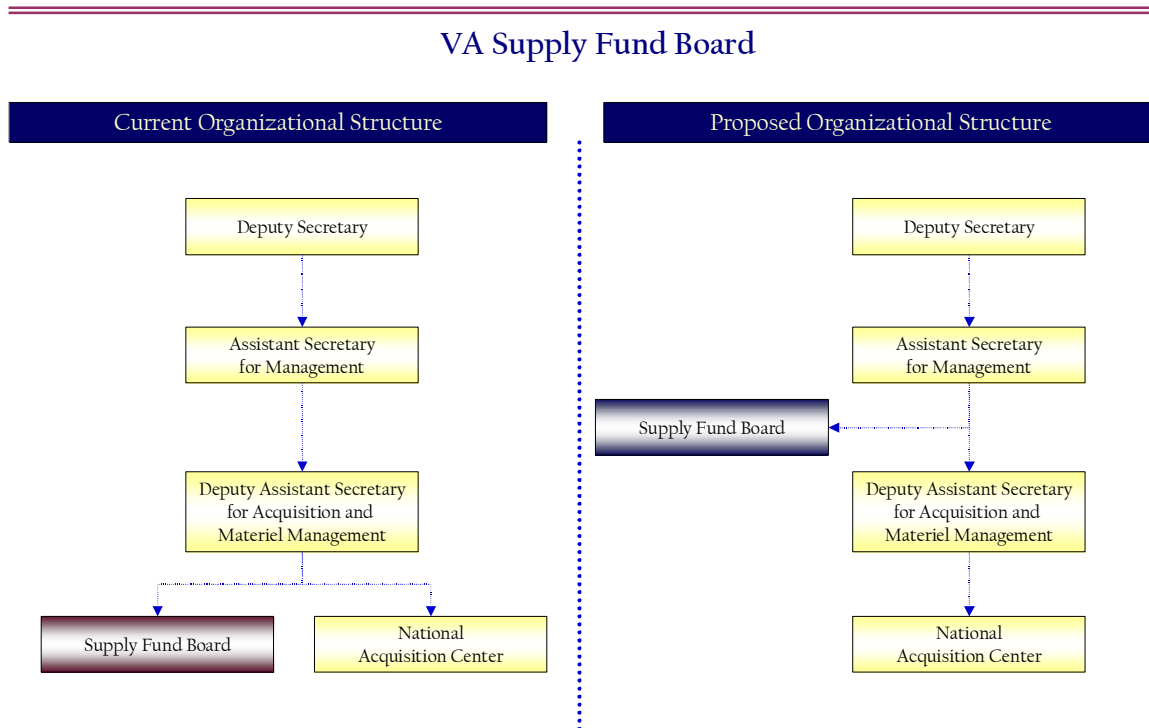


Table 4.7

Recommendation 4.7: Establish a VA Business Oversight Board

The Task Force recommends establishing a Business Oversight Board (BOB) as a subcommittee of the VA Strategic Management Council (SMC). The BOB will assess, analyze, and monitor critical business functions, including procurement activities, across the Department. Central review and oversight are critically important in ensuring that Departmental goals and objectives are met

Currently, the SMC, chaired by the Deputy Secretary, is the appropriate organization to provide these central functions. The BOB will provide regular reports to the SMC, and provide recommendations when appropriate. The Task Force recommends members of the BOB include subject matter experts from the Administrations and staff offices.

Among its charges, the Task Force recommends the BOB specifically monitor the reconstituted Supply Fund Board (Recommendation 4.6) and newly formed VHA Acquisition Board (Recommendation 4.1). The BOB will ensure that the activities of these two groups are coordinated and aligned with Departmental goals, especially with respect to the important activities carried out by the National Acquisition Center (see Table 4.8).

Although the BOB will initially focus on procurement activities, at the direction of the SMC, the BOB may subsequently provide value-added services with respect to other business functions including finance, information technology, human resources, and capital assets.

Business Oversight Board

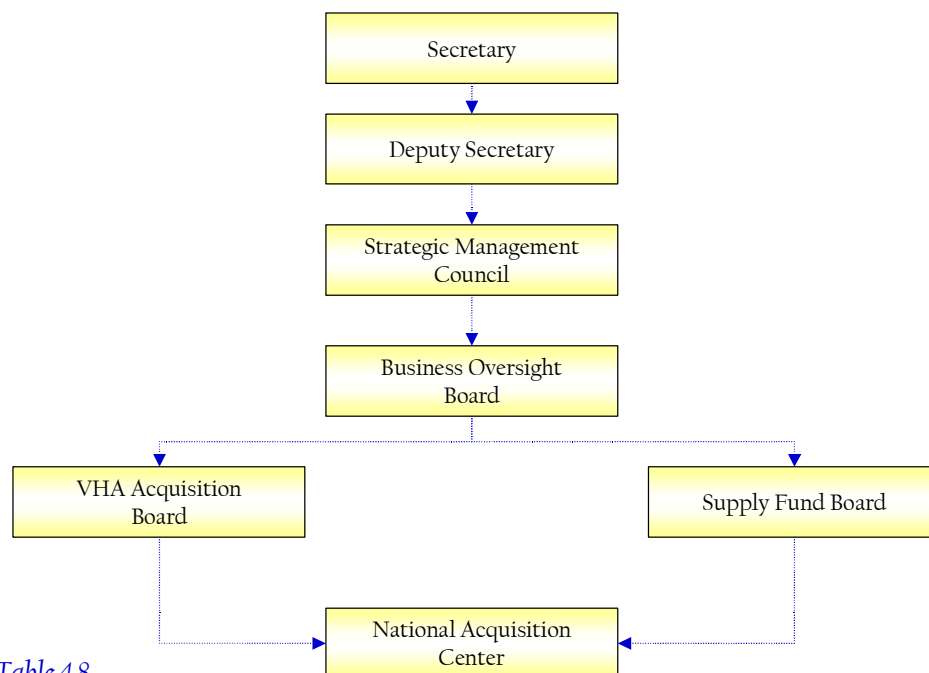


Table 4.8

Recommendation 4.8: Independently assess the cost-effectiveness of the Denver Distribution Center (DDC) to determine whether the program is necessary

As previously discussed, the Denver Distribution Center (DDC) provides many logistical and audiological services and is widely known for the quality of its work. However, questions about the cost-effectiveness of the DDC exist. The Task Force reviewed the program, but was unable to reach a definitive conclusion. The Task Force, therefore, recommends an independent group conduct a thorough cost-benefit analysis. The reviewer should consider and recommend other alternatives for accomplishing the DDC's mission or possibly exporting the "DDC model" to other procurement and logistics activities. The Assistant Secretary for Management should contract for and review the results of the analysis.

Recommendation 4.9: Ensure VA acquisition programs achieve desired results

Acquisition performance metrics should be established for all major procurement activities, and should include measures for quality, timeliness, responsiveness to customers, compliance with VA and Federal rules and regulations, and implementation of procurement reforms. The metrics should also monitor achievement of socioeconomic goals. The VHA Office of Chief Logistics Officer and the Office of Management should develop the metrics jointly. The Task Force believes it is critical to measure results, and expects use of these metrics will facilitate continuous improvements across VA's acquisition system.

CONCLUSION

By implementing these changes in organization, authority, and accountability, VA will be able to achieve consistent, measurable results throughout its acquisition system. VA will also have a single, national focal point within VHA to coordinate, integrate, and leverage key acquisition activities. The Task Force believes the VHA Acquisition Board is critically needed and will provide a particularly effective forum for discussing and addressing acquisition issues.



GOAL 5: ENSURE A SUFFICIENT AND TALENTED VA ACQUISITION WORKFORCE

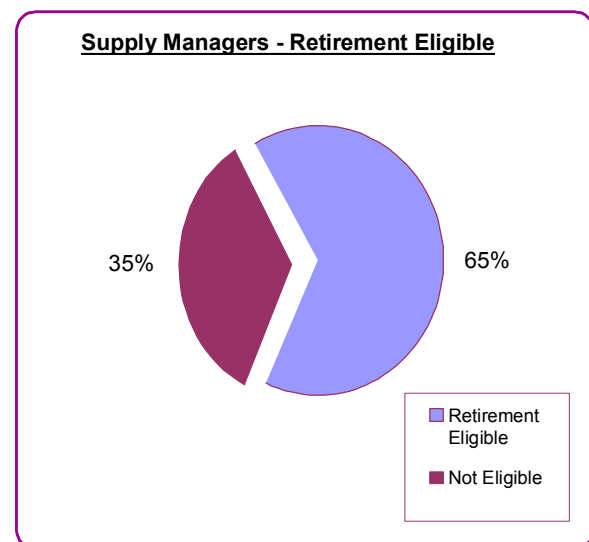
Ultimately, the success of VA's acquisition system depends on its workforce. Without a sufficient number of talented and knowledgeable professionals, virtually none of the goals articulated by the Task Force can be achieved. The acquisition workforce issues currently facing VA are shared across Government, and the Task Force encourages VA to continue pursuing Governmentwide solutions. In addition, the Task Force recommends VA take specific steps to "professionalize" the acquisition work force, improve recruitment and retention, and enhance education and training. These actions include identifying members of its workforce and the competencies they must attain, assessing compensation, and establishing an acquisition intern program.

ASSESSMENT

VA's acquisition workforce is in a vulnerable position. The nature of its work is rapidly changing, requiring broader competencies and more complex skill sets. There is increased need for employees with higher educational levels, general management proficiency, and the ability to leverage information technology. Moreover, a critically high number of VA's acquisition employees are eligible for retirement. This places the Department's acquisition leadership succession at risk and may lead to substantial voids in both knowledge and service. According to a study completed for VA in January 2001, some internal customers are already perceiving service shortfalls and seeking alternate contracting arrangements.

The Task Force reviewed several additional reports that also present findings that highlight the vulnerability of VA's acquisition workforce (Appendix D). Key indicators are highlighted in Table 5.1.

- Overall, 26 percent of VA contract specialist (series 1102) will be eligible to retire by 2004; 53 percent will be eligible by 2009
- VHA procurement specialists, on average, are 53 years old with over 20 years of service
- By 2005, 81 percent of VHA master and senior procurement specialists (grade 12-15) are projected to be retirement eligible
- Supply Manager is an occupation at high risk for turnover with 65 percent eligible to retire – the second highest percentage among 21 occupations studied by VHA National Succession Planning Task Force



Source: VHA National Succession Planning Task Force (2001)

Table 5.1

VA must implement effective acquisition recruitment, retention, and training programs to address these issues and develop its workforce. Current challenges to successful implementation include:



Recruitment

- Lack of a comprehensive needs-based human resources plan for the future VHA acquisition workforce;
- Cumbersome hiring process;
- Historically low pay grades relative to 23 other Federal agencies (third lowest for contract specialists, as shown in Table 5.2 below; and,
- Competition from the private sector and other agencies (e.g., Department of Defense already has a wide-ranging, longitudinal, multimillion dollar replenishment strategy for its acquisition workforce).

- Of the agencies reviewed, VA's contract specialist pay grades are significantly lower, on average, than other US Government agencies

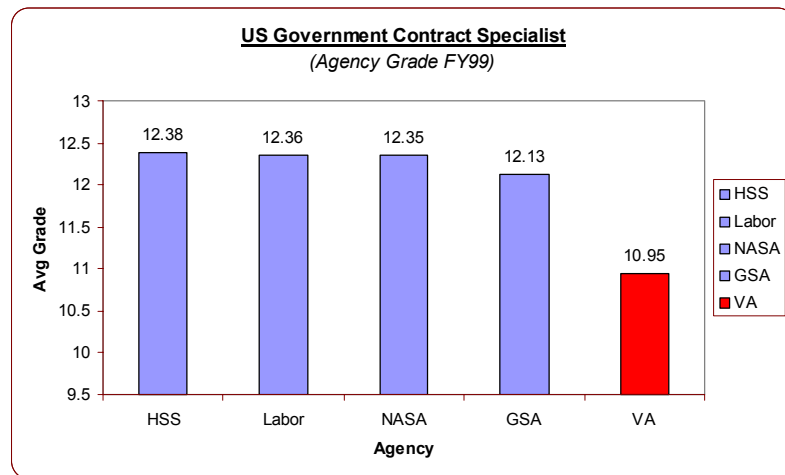


Table 5.2

Source: Report on the Federal Acquisition Workforce – 1100 Series (April 30, 2001)

Retention

- Current acquisition career paths are not based on competency and skill achievements, but rather on time in position and hours of training;
- Lack of assessment tool or process to track employee achievement of required competency levels; and
- Limited standardized performance metrics to enable benchmarking and drive improvement.

Training

- Composition of the acquisition workforce is not clearly identified;
- Core competencies required for various acquisition positions are undefined;
- Inconsistent enforcement of Clinger-Cohen Act; and
- Lack of intern or acquisition training programs.

In order to be successful, strategies to address these challenges must be focused to meet the needs of specific cohorts of employees. Key groups of employees to target are:



New hires

New hires are significant because they rejuvenate the workforce. They are also critically important because of the cost of replacement (i.e., recruitment) and the resources necessary to climb the steep initial learning curve. New hires must have a thorough orientation program, easy access to resources such as policy and procedure guides, a seasoned mentor, an individual development plan, and incentives aligned with results.

Mid-career high performers

Mid-career, high performers should be retained because of their corporate knowledge, expertise, and customer relationships. To insulate them from recruitment by competitors, VA must ensure well-defined career paths including a non-managerial track, responsiveness to employee input, opportunities for special projects and job rotations, and retention bonuses.

Soon-to-be-retirees

Outstanding employees who are contemplating retirement should be provided opportunities to remain active in the organization. Their knowledge and institutional memory are invaluable. The recently completed “former employee survey” by VHA indicates that career development opportunities and fairness of work assignments particularly influenced early retirees.

Retirees

Retirees can be a valuable resource for short-term filling of critical vacancies or for mentoring. VA must be in a position to rehire these former employees without creating a financial disincentive for them.

RECOMMENDATIONS

Numerous strategies and legislative proposals to enhance Federal employee recruitment, retention, and training were identified in the reports reviewed by the Task Force. These reports strongly suggest that VA will only be successful in revitalizing its workforce if VA implements a comprehensive and integrated workforce development strategy. The Task Force, therefore, proposes an extensive set of recommendations to achieve the goal of ensuring a sufficient and talented VA acquisition workforce. While aimed specifically at the areas of recruitment, retention, and training, the recommendations are designed to complement each other and provide a pragmatic approach to issues facing the acquisition workforce.

Goal 5: Ensure a Sufficient and Talented VA Acquisition Workforce

Work Force Recommendations	
5.1	Determine appropriate size and mix of VA's acquisition workforce
5.2	"Professionalize" VA's acquisition workforce
5.3	Improve recruitment and retention of the acquisition workforce
5.4	Enhance education and training of the acquisition workforce

Recommendation 5.1: Determine the appropriate size and mix of VA's acquisition workforce

VA needs to clearly define and identify the occupational series and positions in those series that constitute the acquisition workforce. The types and numbers of employees targeted by the plan should include:

- 1100 series employees,
- 2000 series employees,
- Heads of Contracting Activity,
- Contracting Officer's Technical Representatives,
- Office of Small and Disadvantaged Business Utilization staff, and
- Auditors.

VA should then determine the amount and locations of acquisition activities needed, followed by the number and mix of acquisition staff. These conclusions should be based on a comprehensive acquisition plan. Existing staff should be realigned as necessary. VA should also intensify training efforts and establish training programs to fill persistent gaps.

Recommendation 5.2: “Professionalize” VA’s acquisition workforce

VA must develop a comprehensive needs-based human resource plan for its future acquisition workforce. The plan should address core competencies, performance evaluation, and an enhanced process for employees to obtain and maintain contracting warrants.

Employee career paths that build upon an identified set of workforce core competencies are required. The competencies should be linked to specific skill sets and individually applied to the requirements of particular positions. This approach will permit continuous assessment of “skill gaps,” and create individual development plans (IDP) based on closing the gaps. Both managerial and non-managerial career paths are necessary.

VA-wide acquisition performance measures, consistent with Department strategic goals that relate to each acquisition organization are needed. Performance measures must be simple, meaningful, and limited in number. Comparing organizational units against each other and benchmarking against private sector enterprises should be encouraged.

Finally, VA needs to enhance its Center for Acquisition and Materiel Management Education Online (CAMEO) program. The current program is in its initial stage of implementation. Online education program offerings must be expanded, and the documentation of employee training records should be enhanced to provide the following capabilities:

- Tracking enrollment in education classes for series 1102, 1105, and 2000 employees;
- Providing technical training for acquisition professionals in important aspects of contracting, such as performance-based contracting, development of statements of work, socioeconomic program requirements, and contract administration;
- Providing non-technical training in competencies, such as communications, customer service, creative thinking, and systems thinking;
- Providing training for purchase cardholders in basic acquisition sources and requisite qualifications sufficient to grant authority for procurements up to \$2,500; and
- Maintaining the continuing education training records for all contract specialists and warranted contracting officers.

VA should continue its participation with the Office of Federal Procurement Policy (OFPP) to resolve intergovernmental acquisition workforce issues and influence Governmentwide acquisition policy.

Recommendation 5.3: Improve the recruitment and retention of the acquisition workforce

VA has experienced considerable turnover of talented acquisition staff who have retired or chosen employment with other Government agencies. VA workforce strategy and succession planning task forces have recently examined the issues contributing to poor recruitment and retention results. The approved recommendations (e.g., retention bonus, staggered retirement, “emeritus status,” mentoring opportunities, and flexible work schedules) have already been validated and are not reiterated in this report. The Task Force recommends that they should be expeditiously implemented.

No issue is more seminal to the success of recruitment and retention than compensation. It is widely believed that VA loses out in the recruiting process and in its ability to retain talented acquisition personnel due to low compensation levels. The Task Force recommends a comprehensive salary review that is benchmarked with other appropriate Government agencies. VA needs to review pay levels for acquisition staff and consider options such as pay banding and performance-based pay. In addition, grade classifications should be reviewed, and additional options should be available (e.g., non-supervisory GS-13s and GS-14s). According to the Office of Federal Procurement Policy (OFPP) Acquisition Workforce Analysis, VA has far fewer of its journeyman contracting officers at the GS-12, GS-13, and GS-14 levels than do other agencies. Existing options such as relocation and retention pay should also be fully utilized.

VA recently surveyed its employees, but the results are pending at the time of this report. Findings relevant to the acquisition workforce need to be analyzed and an action plan developed and implemented to improve the environment for the acquisition workforce.

Recommendation 5.4: Enhance education and training of the acquisition workforce

Clinger-Cohen legislation sets educational requirements for entry into the GS 1102 contracting series and for promotion beyond the GS-12 level. The legislation also provides the Department’s Senior Procurement Executive with the authority to waive those requirements if it is determined to be in the best interest of the Department. VA needs to clarify and disseminate its interpretation of relevant aspects of Clinger-Cohen in a consistently enforced directive.

VA needs to develop updated training and certification programs for the acquisition workforce. Training should focus on traditional procurement skills, as well as on development of a more comprehensive set of general business proficiencies. Courses should include procurement reforms, core competencies, customer service, business management, and communication skills to reflect the evolving roles of acquisition professionals. The Task Force believes that training for Contracting Officer’s Technical Representatives (COTR), especially for those individuals who do not perform this function on a regular basis, is critically needed. It is not unusual for COTRs to be well-trained technically, but lacking in an adequate understanding of essential elements of the acquisition process.

VA needs to reestablish an acquisition intern program. Internship programs are widely regarded as a successful vehicle to recruit talented professionals. The previous VA acquisition intern program should be reviewed and updated to include identification of a central source of funding to initiate and sustain a robust program. Preceptors for interns should include Heads of Contracting Activity (HCA), with selection based on the strength of their existing contracting staff. Preceptors should receive specific training in coaching and mentoring to assist them in being effective instructors. Special direct-hire authority should be sought from Congress to enable VA to recruit top candidates for the training program. Additionally, the acquisition career track needs to be clearly defined so that newly recruited interns and potential candidates can understand the promotional opportunities in the career field.

In order to compete successfully with other organizations, VA needs to publicize and promote its career opportunities to potential recruits. VA should emphasize the value of public sector careers, patriotism, and service to veterans. The Task Force believes VA must recognize current and future changes in the labor market and adapt to be competitive for the “best and the brightest.” VA should continue to offer longitudinal career opportunities, but also pursue talented individuals who may be only interested in short-term prospects.

CONCLUSION

In summary, the Task Force proposes a comprehensive, integrated approach to ensuring a sufficient and talented acquisition workforce. The Task Force recommends initiatives targeted at the areas of recruitment, retention, and training. Improved compensation will help to recruit new talent and reduce turnover. A first-rate training program will enhance the effectiveness of current employees and have tremendous appeal to new college graduates. Finally, implementation of a strategic plan for the acquisition workforce will bind these initiatives together and ensure that the workforce is managed as a single entity, rather than a loose collection of related occupations.

VA PROCUREMENT REFORM TASK FORCE SUMMARY OF RECOMMENDATIONS AND ACTIONS

GOAL 1: LEVERAGE PURCHASING POWER OF VA

Major Recommendations		Recommendations		Comments	Action Steps
1.1	Establish a contract hierarchy which mandates VA use of VA Federal Supply Schedules (FSS) Groups 65 and 66 for procurement of health care supplies.	1.1.1	VA will mandate the use of contracts in the following descending order of priority: Tier One - National committed use contracts; VA Federal Supply Schedules (FSS) Groups 65 and 66, in the following order of priority: (1) Nationally awarded Blanket Purchase Agreements (BPAs), issued against FSS contracts (by the NAC); (2) Multi-VISN, VISN, or locally awarded BPAs, issued against FSS contracts; and (3) FSS purchases (without BPAs); Tier Two - VISN or regionally awarded contracts for items without national or FSS contracts; locally awarded contracts for items without national or FSS contracts; Tier Three - open-market purchases.	These priorities for contracts differ from those currently listed in the VA Acquisition Regulation (VAAR). VISNs and facilities will procure items from national contracts, FSS, and national BPAs, if available. Requests by VISNs or facilities for new BPAs will be sent to the NAC for consideration. The NAC will have a fixed time period to either pursue a national BPA or allow the requesting group to proceed with its negotiations.	Prepare a deviation to the current VAAR provision or rewrite the VAAR provision to reflect new hierarchy.
		1.1.2	VA will grant waivers to mandated use of FSS contracts, but only when compelling clinical circumstances can be demonstrated.	The authority to grant waivers will rest with the VA Procurement Executive; however, this authority may be delegated to others.	Establish a process for requesting waivers and criteria to be used for approving waivers.
		1.1.3	In establishing contracts with distributors for VA FSS Groups 65 and 66 commodities, VA will limit contracts to distribution services only.	The NAC will establish product pricing to be used in conjunction with distribution contracts through direct negotiations with the product manufacturers. Negotiations with distributors will be for distribution services only. An exception may be granted when the distributor has a commercial customer base from which negotiations and award can proceed, or the distributor can provide the manufacturers' commercial-customer pricing information to determine a negotiation position which will result in a valid award.	Establish policy to limit negotiation of distribution contracts to the distribution fee unless the distributor clearly establishes that they are responsible for negotiating product prices for a manufacturer's commercial customers. Prior to implementation, review by General Counsel will be needed.
		1.1.4	VA will provide a readily accessible and searchable listing of current national and FSS contracts to facilitate its use.	A web-based, user-friendly searchable database of all items and services available on VA FSS Groups 65 and 66 will make it easier to determine availability of specific items.	Develop a web-based, user-friendly searchable database that will include catalog information from vendors holding national and FSS contracts.
		1.1.5	VA will establish with GSA a web-based, virtual "VA Store" within GSA Advantage.	The "VA Store" will include commodities commonly purchased by VA staff and enable efficient and documented purchasing from FSS contracts.	Collaborate with GSA to expedite establishment and maintenance of "VA Store."

VA PROCUREMENT REFORM TASK FORCE SUMMARY OF RECOMMENDATIONS AND ACTIONS					
GOAL 1: LEVERAGE PURCHASING POWER OF VA (CONTINUED)					
Major Recommendations		Supporting Recommendations		Comments	Action Steps
	Establish a contract hierarchy which mandates VA use of VA Federal Supply Schedules (FSS) Groups 65 and 66 for procurement of health care supplies.	1.1.6	VA will provide education and training to its staff regarding the use and benefits of FSS contracts, BPAs, and GSA Advantage.	Education and training will be provided to both procurement staff and users.	Develop a core curriculum regarding the use of FSS contracts and development of BPAs.
		1.1.7	VA will establish a "Help Desk" to answer questions regarding the availability, use, and benefits of national and FSS contracts.	"Help Desk" will be available to all VA employees and will improve customer service.	Establish a "Help Desk" to answer questions regarding the existence and/or use of national and FSS contracts.
		1.1.8	VA will inform vendors of the new contracting priorities and actively encourage them to obtain and promote their FSS and national contracts.	VA staff will also encourage all vendors wishing to sell products to VA to apply for a FSS contract award.	Develop and implement a communication plan to publicize the new contracting priorities and encourage FSS as a preferred contract mechanism.
		1.1.9	VA will monitor and audit compliance with revised contracting priorities and regulations.	Optimal compliance will require complete procurement history (see Recommendations 3.1 and 3.3) and readily accessible listing of current national and FSS contracts (see Recommendation 1.1.4). Performance expectations for various organizational units will be established.	Develop an audit tool and reporting process.
1.2	Pursue legislation and policy changes to enable VA to count first tier subcontracts toward achievement of socioeconomic goals.	1.2.1	VA will pursue legislative and policy changes allowing first tier subcontracts to contribute toward attainment of socioeconomic goals.	VA must find mechanisms to maintain and enhance small business participation while ensuring achievement of mission, program and budget objectives.	Initiate required legislative and policy changes.
1.3	Pursue tiered pricing and other favorable terms in all procurement instruments.	1.3.1	VA will seek tiered pricing and other favorable terms in all procurement instruments.	Tiered pricing and other favorable terms included in initial FSS awards can improve procurement efficiencies and reduce costs.	Seek tiered pricing and other favorable terms in all negotiations with vendors.
		1.3.2	VA purchasers will use Blanket Purchase Agreements (BPAs), whenever feasible, to reduce costs and streamline procurements.	This will be the cornerstone of VA procurement activities.	Award BPAs from FSS contracts in accordance with the revised contracting hierarchy for recurring requirements.

VA PROCUREMENT REFORM TASK FORCE SUMMARY OF RECOMMENDATIONS AND ACTIONS					
GOAL 1: LEVERAGE PURCHASING POWER OF VA (CONTINUED)					
Major Recommendations		Supporting Recommendations		Comments	Action Steps
1.4	Consolidate high-technology equipment purchases not covered by FSS schedules.	1.4.1	Purchases of high-technology health care equipment in VHA will be consolidated and aggregated at the VISN level, whenever feasible.	VISN Equipment Committees should determine, subject to approval by VISN Directors, desired purchases of high-technology equipment.	Establish VISN Equipment Committees and charge them to aggregate and consolidate equipment selections whenever feasible.
		1.4.2	VISNs will submit approved and funded high-technology equipment plans to the NAC for procurement on a recurring basis.	VISN plans will provide the necessary information to negotiate improved prices. High-technology equipment purchasing will be consolidated at the NAC on a recurring basis.	VISNs to develop and submit approved and funded plans for high-technology equipment purchases to NAC.
		1.4.3	NAC will attempt to obtain better prices and/or additional features and support (e.g., education and training).	NAC will aggregate requests from multiple sources (e.g., VISNs, other government agencies) and leverage purchasing power.	Aggregate high-technology equipment requests and negotiate for lowest price and/or additional features and support.
		1.4.4	OM will waive fees to VHA entities submitting requests if NAC is unable to negotiate more favorable terms than the VISN submitting the request.	This arrangement aligns the financial incentives of the NAC with VISNs submitting the requests.	Revise NAC fee schedule.

VA PROCUREMENT REFORM TASK FORCE SUMMARY OF RECOMMENDATIONS AND ACTIONS

GOAL 1: LEVERAGE PURCHASING POWER OF VA (CONTINUED)

Major Recommendations		Supporting Recommendations		Comments	Action Steps
1.5	Optimize and monitor the use of purchase cards.	1.5.1	VA will develop and apply national criteria to determine who should possess purchase cards.	The number of purchase cards and purchase cardholders will decrease.	Develop and apply national criteria to determine who should possess purchase cards.
		1.5.2	VA will maximize the use of purchase cards as a payment mechanism.	This will increase the amount of rebates VA receives from the credit card company (i.e., 1.06% of purchases) and reduce costs associated with processing an invoice or check payment.	Encourage the use of purchase cards as payment for goods and services.
		1.5.3	VA will assign "payment only" authority to individuals who are not warranted contracting officers to pay for acquisitions above \$2,500.	The relative costs, benefits (e.g., increased rebates, lower transaction costs), and risks need to be identified and considered.	Assign "payment only" authority for purchases above \$2,500.
		1.5.4	VA will revise and implement new criteria regarding the use of "detailed" versus "simplified" transaction documentation (i.e. menus).	The criteria will be based on several factors, including frequency of transactions, amount of purchase, and organizational unit.	Revise and implement new criteria regarding the use of "detailed" versus "simplified" transaction documentation.
		1.5.5	VA will provide initial and ongoing training to all purchase cardholders.	VA-specific training modules should be developed and made available to all purchase cardholders via distance learning and other technologies (e.g., Internet sites and/or CD-ROMs).	Develop and require VA-specific initial and ongoing training to all purchase cardholders.
		1.5.6	VA will monitor use of purchase cards to ensure proper use.	A sampling of purchase card transactions should be audited to ensure security, appropriate purchases, proper costing, timeliness of certification, and oversight.	Audit purchase card use using a nationally developed audit tool.
1.6	Partner with DoD to further leverage purchasing power of VA.	1.6.1	Existing VA-DoD work group should intensify its efforts in identifying existing and creating new opportunities for joint VA-DoD purchases.	All partnering activities should yield mutual benefits. Optimal results will require commitment from both Departments at all levels.	Identify new opportunities for joint VA-DoD purchasing.

VA PROCUREMENT REFORM TASK FORCE SUMMARY OF RECOMMENDATIONS AND ACTIONS

GOAL 2: STANDARDIZE COMMODITIES WITHIN VA

Major Recommendations		Supporting Recommendations		Comments	Action Steps
2.1	Expand, enhance, and enforce commodity standardization.	2.1.1	VA will identify products to be considered for standardization on an ongoing basis.	Potential products will be selected based on criteria such as the number of purchases (e.g., "Top Twenty" list), maturity of product development, brand differentiation, and substitute products. Suitable products may be identified at national and local levels.	Identify products to be considered for standardization. Start with the "Top Twenty" list identified by the Task Force.
		2.1.2	VA will establish additional user-based, narrowly focused groups that are charged with standardizing a specific commodity.	Criteria will be established that emphasize product quality and end-user benefits, not merely cost savings.	Establish a user-based group to standardize each commodity selected. Initially, the standardization groups could be led by a VISN Clinical Services Manager.
		2.1.3	VA will develop a consistent approach to standardize commodities that will be followed by all standardization user groups.	Current VA processes will be revised based on commercial best practices. The user groups will consider quality, total life-cycle costs and socioeconomic business goals.	Revise VA standardization approach, based on commercial best practices.
		2.1.4	VA will grant waivers to standardized products, but only when compelling clinical circumstances can be demonstrated.	The authority to grant waivers will rest with VHA Chief Logistics Officer. This authority may be delegated to others.	Establish a process for requesting waivers and criteria to be used for approving waivers.
		2.1.5	VA will monitor and enforce compliance with standardization decisions.	Consistent data will be available VA-wide. Senior executives will regularly review this procurement data to ensure compliance.	Select, distribute, and review data necessary to evaluate compliance with standardization decisions.

VA PROCUREMENT REFORM TASK FORCE SUMMARY OF RECOMMENDATIONS AND ACTIONS					
GOAL 3: OBTAIN AND IMPROVE COMPREHENSIVE VA PROCUREMENT INFORMATION					
Major Recommendations		Supporting Recommendations		Comments	Action Steps
3.1	Improve the accuracy and completeness of procurement and materiel management data.	3.1.1	VHA will enforce the current requirement for all services with recurring inventories to utilize the Generic Inventory Package (GIP).	VHA Directive 1761.2, dated October 2000, requires an appropriate level of inventory management and use of GIP. VHA will also need to provide education, training, and assistance to facilities for implementation of GIP.	Review adequacy of VHA Directive 1761.2, revise as appropriate, and monitor compliance.
		3.1.2	VISNs will implement cost-effective inventory management and distribution systems that provide consistent and complete procurement transaction information.	Medical-surgical prime vendors (MSPV) provide distribution, inventory management, and procurement transaction services. In some circumstances, the fee charged by MSPV may exceed the benefits.	VISNs will evaluate the cost-effectiveness of MSPV programs based on nationally developed criteria and implement as appropriate.
3.2	Facilitate industrywide development and adoption of Universal Product Numbers (UPN).	3.2.1	VA will take a leadership position with other Government agencies and private sector companies in the advocacy of UPNs.	VA will prepare a UPN cost-benefit analysis and a formal regulatory package for submission to OMB. VA will continue to participate in the Health Care Electronic Data Interchange (EDI) Coalition to promote the use of UPNs in the health care industry.	Prepare and submit a regulatory package to Office of Management and Budget (OMB) to require UPNs for federal purchases of health care products.
3.3	Establish a National Item File (NIF) with a standard naming convention.	3.3.1	VA will assign a unique identifier to each product purchased, including pharmaceuticals, prosthetic devices, and medical-surgical supplies.	Immediately begin building a NIF, to be used in IFCAP by all facilities within six months.	Using the item files for the three coreFLS pilot sites, merge the item files, eliminating duplication and standardizing the language. This will serve as the basis of the NIF.
		3.3.2	VHA will determine if Healthcare Common Procedure Codes (HCPC) are the appropriate identifier for prosthetic devices.	HCPCs are the industry standard and are used by Medicare, but lack specificity.	Determine if HCPCs are the appropriate identifier for prosthetic devices.
		3.3.3	VA will immediately begin the formation of a NIF for use in IFCAP at all VHA facilities.	The NIF developed for IFCAP will also serve as the NIF within coreFLS. The item files from the VHA and VBA facilities serving as coreFLS enterprise builds should be used to begin development of the NIF.	Catalog and standardize initial items for inclusion in NIF. Once available, download the NIF and develop a programming patch to IFCAP for mandatory use at each facility.
3.4	Develop a migration strategy for the transition to coreFLS.	3.4.1	VA will reassess the coreFLS strategy to ensure adequate procurement transaction documentation and reporting.	Input from key customers (e.g., OA&MM, CLOs and HCAs) is essential to ensure the success of coreFLS.	Reassess the coreFLS strategy to ensure customers' needs for adequate procurement transaction documentation and reporting are met.

VA PROCUREMENT REFORM TASK FORCE SUMMARY OF RECOMMENDATIONS AND ACTIONS

GOAL 4: IMPROVE VA PROCUREMENT ORGANIZATIONAL EFFECTIVENESS

Major Recommendations		Supporting Recommendations		Comments	Action Steps
4.1	Establish a VHA Acquisition Board.	4.1.1	VA will establish an Acquisition Board (AB) to oversee all VHA procurement activities.	The purposes of the AB are to oversee and coordinate standardization activities, acquisition planning, education and training for acquisition staff, CLO Council, and socioeconomic goal accomplishments. The AB will create committees as necessary.	Charter VHA Acquisition Board.
		4.1.2	The Deputy Under Secretary for Health (DUSH) will chair the AB.	The AB will be on par with VHA's Policy and Capital Asset Boards. The DUSH, reporting through the Under Secretary for Health, will serve as the liaison to the Department's Strategic Management Council (SMC).	Assign DUSH as Chair, Acquisition Board, and name other members, including OA&MM/NAC, VISN and VAMC representatives.
		4.1.3	The AB will establish a NAC Clinical Advisory Council.	The Clinical Advisory Council will provide customer perspective and feedback to the NAC.	Establish a NAC Clinical Advisory Council.
		4.1.4	The AB will establish subcommittees as needed to accomplish its goals.	Subcommittees may include Standardization, Chief Logistics Officer (CLO) Council, Education and Training, and Acquisition Planning.	Establish AB subcommittees as appropriate.
		4.1.5	The AB will serve as an advisory board to the Supply Fund Board.	The AB will provide customer perspective and feedback to the Supply Fund Board.	Develop and implement an effective interface between AB and Supply Fund Board.
4.2	Establish a separate Office of Chief Logistics Officer within VHA.	4.2.1	Establish a separate Office of Chief Logistics Officer within VHA to support the activities of the AB.	Separate and elevate the current VHA Logistics Office from the Office of the VHA Chief Financial Officer to report directly to the Deputy Under Secretary for Health.	Establish a separate Office of Chief Logistics Officer within VHA.
		4.2.2	Establish a Chief Logistics Officer at the senior executive grade either as an SES or Title 38 equivalent.	Preference should be given to a qualified Title 38 candidate to encourage clinical participation in formulating the requirements for logistics initiatives.	Hire a Chief Logistics Officer at the senior executive grade either as an SES or Title 38 equivalent.
		4.2.3	The VHA Chief Logistics Officer will serve as Executive Director of the Acquisition Board.	VHA CLO will provide program direction and coordination for VHA logistics and acquisition activities.	Assign VHA Chief Logistics Officer as Executive Director of the Acquisition Board and define specific duties and responsibilities.

VA PROCUREMENT REFORM TASK FORCE SUMMARY OF RECOMMENDATIONS AND ACTIONS					
GOAL 4: IMPROVE VA PROCUREMENT ORGANIZATIONAL EFFECTIVENESS (CONTINUED)					
Major Recommendations		Supporting Recommendations		Comments	Action Steps
4.3	Codify the authority of VA's Senior Procurement Executive and Procurement Executive over the Heads of Contracting Activity (HCA).	4.3.1	Delegate authority to appoint HCAs from the Secretary through the Senior Procurement Executive to the Procurement Executive.	There is a need to clarify and formalize accountability of VA's contracting staff, including HCAs, to OM for compliance with Federal and VA acquisition rules and regulations.	Develop VAAR change to properly align HCA appointment authority to the Senior Procurement Executive and Procurement Executive.
		4.3.2	Evaluate and determine the appropriate number of HCA positions within VA.	VISNs should retain the flexibility of having more than one HCA to ensure an	Evaluate current number and distribution of HCAs and
4.4	Enhance the role of the VISN Chief Logistics Officers (CLOs)	4.4.1	Require that all VISN CLOs be HCAs.	This will better integrate and align acquisition, inventory management, and logistics functions within VHA.	Modify requirements to ensure all VISN CLOs are HCAs.
		4.4.2	Clarify roles and responsibilities of VISN CLOs to ensure consistency and accountability.	CLOs should be accountable for both customer responsiveness and compliance with acquisition rules and regulations.	Issue directive detailing CLO roles, responsibilities and accountability.
4.5	Clarify the role of contracting at each level of the organization.	4.5.1	Ensure OM provides effective oversight and support of VHA field activities.	Roles, responsibilities and relationships of the acquisition organizations within VA should be defined to ensure decision-making consistent with relevant policy objectives, and compliant with applicable rules and regulations.	Define acquisition responsibilities across VA.
4.6	Elevate accountability of the Supply Fund Board.	4.6.1	Reassign the chair of the Supply Fund Board to the Assistant Secretary for Management.	This will separate the oversight responsibility provided by the Supply Fund Board from the operational functions provided by OA&MM. Consequently, any perceived conflicts of interest would be eliminated. Supply Fund Board should include members from the VHA Acquisition Board.	Reassign the chair of the Supply Fund Board to the Assistant Secretary for Management and revise membership.
4.7	Establish a Business Oversight Board	4.7.1	VA will establish an Business Oversight Board (BOB) as a subcommittee of the VA Strategic Management Council (SMC).	The purpose of the BOB is to oversee and coordinate and monitor the business activities of the VHA Acquisition Board, Supply Fund Board, and the NAC for the SMC.	Charter the BOB.
4.8	Independently assess the cost-effectiveness of the Denver Distribution Center (DDC) to determine whether the program is necessary.	4.8.1	Contract for an independent cost-benefit analysis and audit of the DDC.	DDC has been widely recognized for the quality of its work. However, concerns remain regarding its cost-effectiveness compared to other alternatives. The reviewer should consider and recommend other alternatives for accomplishing the DDC's mission or possibly export the "DDC model" to other procurement and logistics activities	The Assistant Secretary for Management will contract for an independent cost-benefit analysis of the DDC.
4.9	Ensure VA acquisition programs achieve desired results.	4.9.1	Establish acquisition performance metrics for all major procurement activities.	Performance metrics should include measures for timeliness, customer responsiveness, compliance with VA and Federal rules and regulations, achievement of socioeconomic goals, and implementation of procurement reforms.	Establish acquisition performance metrics for all major procurement activities.

VA PROCUREMENT REFORM TASK FORCE SUMMARY OF RECOMMENDATIONS AND ACTIONS					
GOAL 5: ENSURE A TALENTED AND SUFFICIENT VA ACQUISITION WORKFORCE					
Major Recommendations		Supporting Recommendations		Comments	Action Steps
5.1	Determine the appropriate size and mix of VA's acquisition workforce.	5.1.1	Identify the occupational series and the positions in those series that constitute the VA acquisition workforce.	Acquisition occupational positions include 1100 series, 2000 series, HCAs, COTRs, auditors, and Office of Small and Disadvantaged Business Utilization staff.	Identify positions in the VA acquisition workforce. Develop and implement a system to monitor the demographics and training of the workforce over time.
		5.1.2	Determine the "ideal" number and mix of acquisition staff.	Workforce recommendations should be based on a comprehensive acquisition plan that identifies the amount and locations of acquisition activities needed.	Develop a comprehensive acquisition plan that identifies the necessary number and types of acquisition employees.
5.2	"Professionalize" VA's acquisition workforce.	5.2.1	VA will continue to participate with the Office of Federal Procurement Policy (OFPP) to address intergovernmental acquisition workforce issues.	VA should seek and leverage OFPP's support to obtain OMB approval of any legislative initiatives needed to further VA's acquisition workforce objectives.	Actively participate in OFPP meetings and subcommittees to ensure that VA acquisition workforce priorities are supported.
		5.2.2	VA will develop a comprehensive needs-based human resource plan for its future acquisition workforce. The plan should address core competencies, performance evaluation, and an enhanced process for employees to obtain and maintain contracting warrants.	Employees' career paths that build upon an identified set of workforce core competencies are required. The competencies should be linked to specific skill sets and individually applied to the requirements of particular positions.	Establish a set of competencies needed for individuals to progress to higher grades and responsibilities in a particular acquisition series. Codify and implement these in position descriptions and performance contracts.
		5.2.3	VA will monitor, evaluate, and improve the performance of the acquisition workforce.	Objective performance metrics will enhance accountability, ensure consistency, document achievements, and identify opportunities for improvement.	Develop VA-wide acquisition performance measures, consistent with Department strategic goals that relate to each acquisition organization and are incorporated into the appraisal process.
		5.2.4	VA will enhance its Center for Acquisition and Materiel Management Education Online (CAMEO) program.	CAMEO is in its initial stage of implementation. On-line education program offering must be expanded, and employee training records documented.	Identify needed improvements in CAMEO and implement changes.

VA PROCUREMENT REFORM TASK FORCE SUMMARY OF RECOMMENDATIONS AND ACTIONS					
GOAL 5: ENSURE A TALENTED AND SUFFICIENT VA ACQUISITION WORKFORCE (CONTINUED)					
Major Recommendations		Supporting Recommendations		Comments	Action Steps
5.3	Improve the recruitment and retention of the acquisition workforce.	5.3.1	VA will aggressively implement approved recommendations from prior work groups relevant to acquisition workforce development and succession planning.	VA has experienced high turnover of talented acquisition staff who have retired or chosen employment with other Government agencies. These issues have been recently examined by workforce development and succession planning workgroups.	Synthesize and implement relevant recommendations from prior work groups.
		5.3.2	VA will review salaries for acquisition staff and consider options to optimize compensation such as pay banding and incentive-based pay.	Grade classifications should be reviewed and greater flexibility (e.g., non-supervisory GS-13/14s) should be considered. Existing options such as relocation and retention pay should be fully utilized.	Conduct a comprehensive salary review and benchmark with other appropriate Government agencies. Prepare a proposal to make indicated salary adjustments and seek necessary approvals from VA, OPM, and/or Congress.
		5.3.3	VA will address concerns and opportunities for improvement expressed in VA employee surveys.	VA recently surveyed its employees. Findings relevant to the acquisition workforce should be analyzed and addressed.	Develop and implement an action plan to improve the workforce environment for acquisition staff.
5.4	Enhance education and training of the acquisition workforce.	5.4.1	VA will clarify and disseminate its interpretation of relevant aspects of Clinger-Cohen legislation and enforce applicable provisions.	In order to fully comply with Clinger-Cohen legislation, VA needs to consistently enforce the educational requirements and waiver provisions of this law.	Incorporate any changes to educational requirements and waiver provisions in a VA Directive.
		5.4.2	VA will develop updated training and certification programs for the acquisition workforce.	Training should focus on procurement reforms, core competencies, customer service, business management, contract administration and communication skills to reflect the evolving roles of acquisition professionals. Training for COTRs, especially for those who perform this function on an infrequent basis, is very important.	Assess existing training programs at VA, other government agencies, and commercial organizations. Develop and provide updated training to support the attainment of required core competencies throughout the acquisition workforce (see Recommendation 5.2).
		5.4.3	VA will reestablish an acquisition intern program.	Internship programs are widely regarded as a successful vehicle to recruit talented professionals.	Review and update the previous acquisition intern program. Identify the cost and centralized source of funding (e.g., Supply Fund) to initiate and sustain a robust program. Special direct-hire authority should be sought.
		5.4.4	VA will market desirable career opportunities to potential recruits.	In order to compete successfully with other organizations, VA needs to publicize and promote its career opportunities. VA should emphasize the value of public sector careers and service to veterans.	Promote VA acquisition career opportunities through innovative recruitment strategies (e.g., outreach by alumni to alma mater). VA should continue to offer longitudinal career opportunities. In addition VA should pursue talented individuals who may be only interested in short-term prospects.

**Department of
Veterans Affairs**

Memorandum

Date: JUN 18 2001
From: Secretary (00)
Subj: Procurement Reform
To: Under Secretaries, Assistant Secretaries, and Other Key Officials

1. The Department contracts annually for over \$5 billion in goods and services. These contract actions include routine local purchasing of office products, contracts for high-tech medical equipment, strategic contracting for our information technology infrastructure, and leveraged contracts for the approximately \$1.5 billion VA and DoD expend jointly for pharmaceuticals. Our acquisition system is vital, not only because of its magnitude, but also because it is integral to our mission of serving our Nation's veterans.

2. In recent months, I have received a variety of recommendations for improving our acquisition system to its best advantage. To assist me in carefully evaluating our acquisition system and processes, I am chartering a task force to review all facets of VA's acquisition system and to make specific recommendations to me that will optimize that system. Attached is the charter establishing the task force and a list of its members. The task force is charged with completing their review and developing their recommendations within 120 days. I have appointed Robert Wiebe, MD, as Chairman, and Mark Callett as Vice-Chairman, because of their respective business acumen in the front lines and in Headquarters. They both are familiar with the importance of the acquisition process and how it impacts the delivery of care to our veterans. The other members will provide background and expectations of all organizations of the Department in procurement matters. The members are asked to be objective and open-minded as the task force identifies ways to improve VA's acquisition processes and system.

3. I call on each of you to support the efforts of this task force. As needs arise, the task force members will contact you and your staff, and I hope you will offer them your thoughts and insights. I appreciate your assistance in this matter.



Anthony J. Principi

Attachment

Appendix B

VA Procurement Reform System Task Force Membership

Membership

<u>Name</u>	<u>Title</u>	<u>Office</u>
Robert Wiebe, M.D. (Chairman)	Network Director, VISN 21	VHA (10)
D. Mark Catlett (Vice-Chairman)	Principal DAS for Mgt.	OM (004)
Robert Lynch, MD	Network Director, VISN 16	VHA (10)
William H. Campbell	Associate DAS for Mgt.	OM (004)
Gary J. Krump	DAS for A&MM	OA&MM (049)
George T. Patterson	Exec. Director, NAC	OA&MM (049A1)
Jimmy A. Norris	Chief Financial Officer, VHA	VHA (17)
Ronald Bednarz	Director, Logistics Office	VHA (176A)
Phillipa L. Anderson	Assistant General Counsel	OGC (025)
Guy McMichael	Chairman, Board of Contract Appeals	BCA (09)
John Bilobran	Deputy Assistant IG for Auditing	OIG (52A)
Sheila Gelman, M.D.	Chief Medical Officer, VISN 10	VHA (10)
Jonathan H. Gardner, FACHE	Chief Executive Officer, VISN 18	VHA (10)

The Task force acknowledges and appreciates the efforts of the following individuals upon whose expertise we relied heavily:

David S. Derr	ADAS for Acquisitions	OA&MM (049A)
Robert W. Thomale	Chief, A&MM, North Texas VA HCS	VHA (10)
C. Dale Duvall	Chief Financial Officer, OA&MM	OA&MM (049F)
Kathleen Eastberg	Executive Assistant, Office of Acq.	OA&MM (049A)

Appendix C

VA Procurement Reform Task Force Summary of Interview Findings

Interview Summaries

The Task Force developed a set of interview instruments, conducted interviews, and analyzed the interview results. A total of 106 interviews were conducted either in person, by telephone, or electronically. The table below summarizes the individuals and organizations interviewed, and is followed by a synopsis of findings from each group.

VA Acquisition Task Force Interview List

Organization	Interviewees
Group I: VA Purchasers	
National Acquisition Center (NAC)	8
Program purchase cardholders	30
Head of Contracting Activity (HCA)	18
Group II: Vendors	
Johnson & Johnson	1
Tyco	1
GE Medical Systems	1
Premier	1
Group III: Private HC Systems	
Kaiser Permanente	1
Sentara	1
Sisters of Mercy	1
Memorial Hermann Health System	1
Broadlane	1
Group IV: VA Officials	
Facility Directors & Senior Leaders	19
Chief Logistics Officers (CLO)	13
VISN HCAs who are not CLOs	4
Clinicians	2
Head of Pharmacy Services	1
Counsel to the Inspector General	1
Prosthetics & Sensory Aids Dir.	1
TOTAL	106

Appendix C, *continued*.

Summary of Findings

Group I: VA Purchasers

- ◆ Need controls, accountability, and automated data tracking for purchase cards.
- ◆ Initiate comprehensive, ongoing, and updated training on purchase card use.
- ◆ More consistent knowledge of FSS and BPAs is needed.
- ◆ Clarify roles and responsibilities of VISN and national procurement activities.
- ◆ Enhance FSS use with better software tools.

Group II: Vendors

- ◆ Support mandatory use of the FSS.
- ◆ Increase buyer discipline so that VISN-specific contracts do not undermine the FSS.
- ◆ Use single award for low-end products on national contracts.
- ◆ Reward supporters of the FSS to prevent other vendors and buyers who go around it.
- ◆ Provide customer-service data to vendors regularly; establish teams to develop product area expertise and management; add relevant services to some equipment contracts.

Group III: Private Health Care Systems

- ◆ Implement standardization gradually, with clinicians driving the process.
- ◆ Assure clinician involvement and compliance.
- ◆ Use client, supplier and VA IT systems.
- ◆ Add competitive elements between regions to increase success.
- ◆ Show cost savings to clinicians and allow them to receive some of the benefits.

Group IV: VA Officials

Facility Directors & Senior Leadership

- ◆ Address workforce issues, such as recruitment, retention and training.
- ◆ Centralize purchase cards; limit the number of cardholders; improve monitoring and compliance.
- ◆ Improve and update software programs to track purchasing and inventory.
- ◆ Include the following responsibilities for VISN CLOs: coordinating training for VISN contracting and logistics personnel; serving as a liaison between VACO and field facilities; providing guidance, leadership and support to the facility; and interpreting and providing policies.
- ◆ Mandate use of FSS contracts.

Chief Logistics Officers (CLOs)

- ◆ Implement tighter control and more accountability of purchase card use.
- ◆ Limit use of purchase cards to trained professionals (purchasing agents).
- ◆ Provide proper training for using FSS.
- ◆ Commit to consolidated purchasing and standardization.
- ◆ Establish committed volumes for national contracts to produce good pricing.

Appendix C, *continued*.

VISN HCAs who are not CLOs

- ♦ Monitor card use and provide training for purchase card users.
- ♦ Improve the system for tracking standardized items.
- ♦ Implement a standardized process for procurement of medical/surgical and high-tech equipment.

Clinicians

- ♦ Base decisions on clinician preference. Support for standardization is dependent on clinician buy-in.
- ♦ Address ease of use/quality, not just price.
- ♦ Use VISN RFPs to obtain better price.
- ♦ Support Supply Fund in carrying over costs into multi-years on high-cost items.

Head of Pharmacy Services

- ♦ Support concept of FSS contracts negotiated at NAC with BPAs or national contracts for large quantity commitments.
- ♦ Identify common nomenclature for medical/surgical items; generally, a consistent nomenclature exists for Pharmacy.
- ♦ Have a technical representative at the NAC to ensure good relations and a strong coordinated front to industry by knowing the type and quantity of commodities purchased, as is currently the case with pharmaceuticals.
- ♦ Ensure effective negotiations occur with a resulting decrease in unit pricing by having suppliers know that the VA has data on its requirements. Open-market purchases are not an issue for pharmaceuticals. Approximately 90 percent of purchases are through prime vendors.

Counsel to the Inspector General

- ♦ Demonstrate historical usage exceeds those of commercial customers for many products, to prevent a lack of committed volume from being a deterrent to obtaining the best price.
- ♦ Make FSS schedules mandatory to improve negotiations by the NAC. On national contracts VA only knows it received the best price among those who bid.
- ♦ Rely on Supply Fund contracts when recoveries go to the VA; on local contracts they go to the Treasury. Supply Fund constitutes a bargain for the VA.
- ♦ Focus standardization at the local level to improve quality of care; however, this may lead to increased local purchases if not accepted by clinicians.

*Note: The Counsel to the Inspector General also gave the Task Force a comprehensive briefing.

Appendix C, *continued*.

Prosthetic and Sensory Aids Director

- ♦ Need core management tools in place, such as a standard nomenclature and data tracking for standardization to succeed.
- ♦ Align OA&MM and VHA around mutual objectives: OA&MM should have oversight and policy role; VHA should have responsibility for operations.
- ♦ Close Denver Distribution Center and Somerville Depot and transfer functions to the NAC.
- ♦ Need for VHA Logistics Director at the same level as the CFO and CIO, who is responsible for creating and implementing a thorough and up-to-date training plan.

*Note: The Prosthetic and Sensory Aids Director also gave the Task Force a comprehensive briefing.

Appendix D

ACQUISITION WORKFORCE Pertinent Key Report Highlights

I. *VA Acquisition and Distribution: An Integrated Logistics Strategy, April 1997*

Describes several training programs (p49):

- o 18-month A&MM Intern Program
- o Acquisition Training Program (ATP) that provides training in core acquisition competencies – must be augmented to ensure competencies in new acquisition disciplines resulting from the
- o Expanded Sharing legislation and training in marketing and price negotiation strategies
- o Contracting Officer Certification Program (COCP)
- o Quarterly A&MM symposia and conferences
- o SPD cluster training and certification program

Recommendations:

- o Develop a performance measurement system for logistics performance at all levels
- o Regularly schedule a formal review of private/public sector best practices
- o Develop a comprehensive logistics training strategy (p77)
- o Review and redesign the Intern Program
- o Retain responsibility for logistics training and contracting certifications in OA&MM
- o Make the Supply Fund the primary means for funding all logistics training within VA

II. *GAO Report: Human Capital: A Self-Assessment Checklist for Agency Leaders, September 1999*

Builds a self-assessment survey based upon the principles of the Malcolm Baldrige National Quality Award and the Presidential Quality Awards.

- o Five parts of human capital framework are described:
 - Strategic planning; vision for the future of VA procurement
 - Organizational alignment; roles, core competencies, skills inventory
 - Leadership; roles, competencies, teamwork, communication
 - Talent; recruiting & hiring plan, individual development plans linked to competencies, workforce deployment
 - Performance culture; explicit performance-based rewards and consequences; valid, reliable, results-oriented measures of individual and group performance; training and mentoring; IT and other job support

Appendix D, *continued*.

- o Underlying considerations:
 - All aspects of human capital are interrelated
 - Trust requires transparency
 - Merit principles and other national goals still apply
 - Constraints and flexibilities need to be understood
 - Fact-based human capital management requires data
 - Adoption of best practices requires prudent decision-making
 - Attention to human capital must be ongoing

III. GAO Report: *Human Capital: Key Principles from Nine Private Sector Organizations*, January 2000

Attempts to identify common principles that underlie human capital strategies at nine private sector companies known for their innovative HR management practices: Federal Express, IBM, Marriott International, Merck, Motorola, Sears, Southwest Airlines, Weyerhaeuser Co., and Xerox

Underlying principles include:

- o Treat human capital management as being fundamental to strategic business management
- o Integrate human capital functional staff into management teams
- o Leverage the internal human capital function with external expertise
- o Hire, develop, and sustain leaders according to leadership characteristics identified as essential to achieving specific missions and goals
- o Use performance measurement systems, including pay and other meaningful incentives, to link performance to results (line-of-sight)
- o Support and reward teams to achieve high performance
- o Integrate employee input into the design and implementation of human capital policies and practices
- o Measure the effectiveness of human capital policies and practices

IV. GAO Report: *Senior Executive Service: Retirement Trends Underscore the Importance of Succession Planning*, May 2000

- o By the end of FY 2005, the VA will have the highest SES regular retirement eligibility rate among the 14 agencies studied - 82 percent
- o VA had the highest percentage of survey respondents (69 percent) who cited desire for higher pay as a reason to leave within the year

Appendix D, *continued*.

V. Voinovich, George V., Senator, *“Report to the President: The Crisis in Human Capital”*, Committee on Governmental Affairs, United States Senate, 106th Congress, 2nd Session, December 2000

Recommendations requiring legislation:

- o Provide agencies with limited direct hiring authority
- o Adopt a more flexible pay system – “pay-banding”
- o Provide special pay authority
- o Initiate a Governmentwide employee exchange program
- o Insure flexibility for licenses, certificates, and other professional credentials
- o Link training activities to an agency’s performance plans
- o Institute a comprehensive management succession program in all agencies

VI. *VHA Workforce Strategy, January 2001*

Recommendations:

- o Workforce retention/recruitment
 - Provide direct appointment authority
 - Expedited hiring
 - Convert positions to Title 38
 - Expand recruitment search areas
 - Expand quality of life initiatives
 - Initiate “Cafeteria” benefits plan
 - Begin national recruitment campaign
- o Improve physical & psychosocial work environment
- o Provide incentives for employees
- o Enhanced Learning Environment
 - Develop career pathways
 - Reestablish training programs for clinical support career fields (e.g., A&MM)

VII. *VHA National Succession Planning Task Force Report, July 2001*

- o Best practices:
 - Leaders spend 20 percent time developing other leaders
 - Action learning (on-the-job)
 - Core competencies
 - Individual development plans
 - Meaningful assessment tools
 - Mentoring/coaching
 - Database to track those with high potential
 - Exit strategies

Appendix D, *continued*.

- o Geographic variability noted: higher retirement eligibility in NE and Midwest
- o Development of technical expertise for specialty areas unique to VHA may require internal training programs, e.g., for contract specialists (p13)
- o External recruitment is important to increase 20-30 year old cohort
- o Supply management currently has 64.7 percent retirement eligibility (defined as both early *and* regular retirement eligibility) – 2nd highest quoted (p17)
- o Employee separation rate has actually *dropped* from 18 percent in FY 1997 to 13.9 percent in FY 2000 after buyouts and RIFs in FY 97/98 (p20)
- o Perceived barriers to recruitment and retention (p21):
 - Non-competitive salary
 - Lengthy recruitment process
 - Competitive job market
 - Non-competitive benefits
 - Budget constraints
 - Lack of clarity in career paths
 - Low use of incentive awards; VHA gave less than 0.5 percent as compared with governmentwide average of 1 percent (p29)
 - Selection of supervisors for technical rather than interpersonal and management skills
 - Exit interviews are not conducted systematically
- o Supply Manager is one of 21 occupations at high to moderate risk for succession (p24)
 - FY 2000 Supply Manager employees: 116 (VHA 197,278)
 - Retirement eligibility: 64.7 percent (VHA 24.5 percent)
 - FY 2000 separations/employees: 14.7 percent (VHA 13.6 percent)
 - FY 1998 average age: 48.1 (VHA 46.3)
 - FY 2000 average salary (December 2000 PAID data): \$60,461 (VHA \$40,104)
 - Supply Managers/100,000 patients: 3
- o Overall employee satisfaction is most highly correlated with:
 - Treatment with dignity and respect
 - Cooperation and teamwork
 - Job done by supervisor
 - Sufficient action taken on employee's input
 - Early retirees influenced by career development opportunities and fairness of work assignments

Appendix D, *continued.*

Recommendations:

- o Primary focus of this report is on leadership development
- o VHA Office of Management Support to develop unique targeted strategies including:
 - Flexibility in hiring, including retirees
 - Increased benefits, including Eldercare assistance
 - Flexible work schedules
 - Career and self-development initiatives
 - Relocation and retention bonuses
 - Network/Local:
 - Survey work units
 - Proactively attempt to identify and retain high performers
 - Establish minimum incentive awards budget at governmentwide average
 - Effectively seek and use employee feedback
 - Standardized individual employee development plans
 - Specialized national training programs for recognized “skill gaps” unique to VHA, i.e., contracting specialists
 - Some recommended legislative initiatives:
 - Explore pay-banding
 - Lift caps on dollar amount; base awards on percent of salary for all employees
 - Expand sabbatical policy
 - Allow reimbursement for membership dues in job-related professional organizations
 - Single “paid time-off system” that does not differentiate between sick and annual leave
 - Revisit pass/fail performance evaluation system
 - Direct appointment authorities
 - Obtain authority to reemploy retirees without offsetting their annuity

Appendix E

Glossary

<u>Term/Acronym</u>	<u>Definition</u>
AAC	Austin Automation Center, Austin, TX (formerly DPC)
ACO	Administrative Contracting Officer
ADAS	Associate Deputy Assistant Secretary
AMIS	Automated Management Information System
A&MMS	Acquisition and Materiel Management Service
AOS	Acquisition Operations Service
APP	Advance Procurement Plan
ARNet	Acquisition Reform Network
ATP	Acquisition Training Program
BAFO	Best and Final Offer
B&P	Bid and Proposal (cost)
BOA	Basic Ordering Agreement
BOB	Business Oversight Board
BOC	Budget Object Code
BPA	Blanket Purchase Agreement
CAMEO	Center for Acquisition and Materiel Management Education On-Line
CAS	Cost Accounting Standards
CASB	Cost Accounting Standards Board
CBD	Commerce Business Daily
CCDR	Contract Cost Data Report
CFO	Chief Financial Officer
CFSR	Contract Funds Status Report
CFR	Code of Federal Regulations
CG	Comptroller General
CICA	Competition in Contracting Act
CIO	Chief Information Officer
CLO	Chief Logistic Officer
CMOP	Consolidated Mail Outpatient Pharmacy
CMR	Consolidated Memorandum of Receipt
CO	Contracting Officer
CO	VA Central Office (VACO or Headquarters)
COCB	Contracting Officer's Certification Board
COCO	Contractor-Owned/Contractor-Operated
COCP	Contracting Officer's Certification Program
COR	Contracting Officer's Representative
CoreFLS	Core Financial Logistics System
COTS	Commercial off the Shelf
COTR	Contracting Officer's Technical Representative
CPAF	Cost-Plus Award Fee (contract)

Appendix E, *continued*.

CPCM	Certified Professional Contract Manager
CPFF	Cost-Plus Fixed Fee (contract)
CPIF	Cost-Plus Incentive Fee (contract)
CPSR	Contract Procurement System Review
CRAG	Contractor Risk Assessment Guide
CSC	Contract Service Center
DAR	Defense Acquisition Regulation
DAS	Deputy Assistant Secretary
DAPA	Distribution and Pricing Agreements
DBMS	Data Base Management System
DDC	Denver Distribution Center (formerly Prosthetics Distribution Center)
DESC	Defense Electronic Supply Center
DFARS	Department of Defense Federal Acquisition Regulation Supplement
DLA	Defense Logistics Agency
DLSC	Defense Logistics Support Center
DO	Delivery Order
DoD	Department of Defense
DSCP	Defense Supply Center, Philadelphia
DUSH	Deputy Under Secretary for Health
EC	Electronic Commerce (a.k.a. E-Commerce)
ECI	Electronic Commerce Interchange
EDI	Electronic Data Interchange
EDP	Electronic Data Processing
EES	Employee Education Service
EIS	Executive Information System
EO	Executive Order
FAR	Federal Acquisition Regulation
FASA	Federal Acquisition Streamlining Act
FASB	Financial Accounting Standards Board
FFP	Firm-Fixed Price (contract)
FMS	Financial Management System
FPDC	Federal Procurement Data Center
FPDS	Federal Procurement Data System
FPI	Fixed Price Incentive (contract)
FPRA	Forward Pricing Rate Agreement
FSC	Federal Supply Classification
FSG	Federal Supply Group
FSN	Federal Stock Number
FSS	Federal Supply Schedule
FY	Fiscal Year

Appendix E, *continued*.

G&A	General and Administrative (cost)
GAO	General Accounting Office
GASB	Government Accounting Standards Board
GC	General Counsel (a.k.a. OGC)
GIP	Generic Inventory Package
GSA	General Services Administration
GWAC	Governmentwide Agency Contracts
HCPC	Healthcare Common Procedure Codes
HCA	Head of Contracting Activity
HHS	Department of Health and Human Services
IDIQ	Indefinite Delivery, Indefinite Quantity (contract)
IDP	Individual Development Plan
IFB	Invitation for Bids
IFCAP	Integrated Funds Distribution, Control Point Activity, Accounting and Procurement
IG	Inspector General (a.k.a. OIG)
IRM	Information Resources Management (a.k.a. OIRM)
IRMFO	Information Resources Management Field Office (formerly ISC)
ISMS	Integrated Supply Management System
KO	Contracting Officer
KTR	Contractor
LPTA	Lowest Price Technically Acceptable
MAS	Multiple Award Schedule
MFC	Most Favored Customer
MIS	Management Information System
MMS	Materiel Management Service
MSPV	Medical-Surgical Prime Vendor
NAC	National Acquisition Center
NBC	Network Business Center
NCA	National Cemetery Administration
NCMA	National Contract Management Association
NDC	National Drug Code
NIF	National Item File
NPPD	National Prosthetics Patient Database
OA&MM	Office of Acquisition and Materiel Management
OFCCP	Office of Federal Contract Compliance Programs
OFPP	Office of Federal Procurement Policy
OGA	Other Government Agency
OGC	Office of General Counsel (a.k.a. GC)
OIG	Office of the Inspector General (a.k.a. IG)
OM	Office of Management
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OSDBU	Office of Small and Disadvantaged Business Utilization

Appendix E, *continued*.

PBM	Pharmacy Benefits Management
PBSC	Performance Based Service Contract
P&C	Purchasing and Contracting
PAD	Processing and Distribution (a.k.a. SPD)
PE	Procurement Executive
PHS	Public Health Service
PV	Prime Vendor
PPV	Pharmaceutical Prime Vendor
RFP	Request for Proposal
RFQ	Request for Quotation
S&D	Storage and Distribution
SBA	Small Business Administration
SDC	Service & Distribution Center
SMC	Strategic Management Council
SPE	Senior Procurement Executive
SOW	Statement of Work
SPD	Supply Processing and Distribution (a.k.a. PAD)
SPV	Subsistence Prime Vendor
TEB	Technical Evaluation Board
UPC	Universal Product Code
UPN	Universal Product Number
VA	Department of Veterans Affairs
VAAC	VA Acquisition Circular
VAAR	Veterans Administration Acquisition Regulation
VAASC	VA Acquisition Service Center
VAMC	VA Medical Center
VAM&ROC	VA Medical and Regional Office Center
VARO	VA Regional Office
VASC	VA System of Clinics
VBA	Veterans Benefits Administration
VHA	Veterans Health Administration
VISN	Veterans Integrated Service Network
VLR	VISN Logistics Representative